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 13th REPORT TO THE COURT

November 1, 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./PAPIERS FRASER INC., FPS CANADA INC., FRASER PAPER HOLDINGS INC., FRASER TIMBER LIMITED, FRASER PAPERS LIMITED, FRASER N.H. LLC

Applicants

THIRTEENTH 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 November 3, 2010 for an Order extending the existing stay of proceedings to February 28, 2011 and providing authorization and direction in connection with the preparation of a Plan of Arrangement.

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

   a) Certain matters related to the closing of the Specialty Paper Business transaction;

   b) The proposed sale of the Gorham Mill;

   c) The proposed sale of the Maine Lumber Mills;

   d) A potential transaction involving BAM;

e) The Flambeau settlement;

f) The remaining Residual Assets;

g) The status of the Claims Process;

h) The Applicants' actual receipts and disbursements for the nineteen-week period from June 14 to October 17, 2010, including a variance analysis of forecast to actual cash flows for that period;

i) The Applicants' cash flow forecast for the nineteen week period from October 18, 2010 to February 27, 2011;

j) Comments on the Applicants' residual secured debt and lien claims;

k) An update on the Applicants' proposed CCAA plan of arrangement and timing; and

l) 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 twelve prior reports, the affidavit of Glen McMillan sworn October 28, 2010 (the "**October 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 October 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 SALE OF THE SPECIALTY PAPER BUSINESS

7. On April 28, 2010, the sale of the Applicants' specialty paper business ("**SPB**") to Twin Rivers Paper Company Inc. and Twin Rivers Paper Company LLC was completed, for total estimated consideration of $188 million. This included approximately $40 million of promissory notes (the "**Promissory Notes**") and a 49% common equity interest in Twin Rivers Paper Company Inc. with a stated value of $24 million. Where used in this report and unless otherwise indicated, "**Twin Rivers**" will refer to Twin Rivers Paper Company Inc.

8. The closing of this transaction represented the single largest source of proceeds received by the Applicants through the restructuring, and required negotiated settlements with a number of stakeholders including various unions, suppliers, secured creditors and regulatory authorities.

Closing Balance Sheet Net Working Capital Adjustment

9. Since the closing of the SPB transaction, the Applicants and Twin Rivers have been working towards finalizing any outstanding post-closing issues. This has included the closing date balance sheet which, pursuant to the terms of the SPB asset purchase agreement (the "**SPB APA**"), involved the preparation and reconciliation of statements some time after closing.

10. Pursuant to the SPB APA, the final SPB consideration was to be determined once the actual Closing Date Balance Sheet (as defined in the SPB APA) had been finalized. The

Applicants had up to 60 days after the closing date to prepare same. Once the Closing Date Balance Sheet was accepted by Twin Rivers, the Promissory Notes would be adjusted for any differences between the estimated and actual Closing Date Net Working Capital balances (“**Purchase Price Adjustment**”).

11. However, due to limited employee resources and necessary changes in its accounting software following the sale of the SPB, the Applicants were unable to prepare the Closing Balance Sheet within the 60 day time period specified in the SPB APA. As detailed in the Monitor’s Twelfth Report, the Applicants and Twin Rivers agreed to extend the time period for finalizing the Closing Balance Sheet by a further 30 days to July 28, 2010. The Monitor understands the Applicants delivered a copy of the Closing Balance Sheet to Twin Rivers on July 27, 2010.

12. The Applicants provided the Monitor with a copy of the Closing Balance Sheet and the supporting documentation shortly thereafter. The Monitor’s review of same resulted in some questions which, after consideration by management and discussions with Twin Rivers, resulted in an amended Closing Balance Sheet being provided to the Monitor on October 7, 2010, which addressed many of the Monitor’s questions.

13. 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 Notes will be increased by an equivalent amount. Based on the amended Closing Balance Sheet, the Net Working Capital is $58.1 million, which results in an increase in the purchase price of approximately $4.1 million. This amount will be satisfied by the issuance of an additional $4.1 million of Promissory Notes, subject to resolution of two outstanding issues, detailed below.

Closing Balance Sheet – Outstanding Matters

14. There are two outstanding matters in respect of the Closing Balance Sheet which the Monitor continues to review and resolve:

a) The liabilities assumed by Twin Rivers on closing under the amended Closing Balance Sheet were $46.1 million, approximately $1.5 million below the $47.6 million maximum assumed liabilities cap under the SPB APA. As noted in the Monitor's Twelfth Report, the Monitor has been advised that, as a result of payment issuance delays that the Applicants have routinely incurred in the week immediately after each month-end closing (due to month-end processes with the Applicants' financial accounting systems), the Applicants have historically issued cheques to suppliers in advance of the due dates, where those due dates fall due in the first four or five days of the following month.

Based on the Monitor's review of disbursements released prior to the SPB closing, the Applicants released approximately $1.9 million of disbursements on April 26 and April 27, 2010 that were due for payment after April 28, 2010**.** The Monitor continues to work with the Applicants and Twin Rivers to confirm these payments were made in accordance with normal month end procedures. To date, Twin Rivers has reimbursed a total of $599,000 as requested by the Applicants and the Monitor;

b) As a result of the CCAA proceedings, the Applicants were required to pre-pay for some of their raw material purchases (such as pulp and oil) for the SPB's operation up to ten days in advance of receipt of the goods.

The Closing Date Balance Sheet for the SPB transaction included $1.4 million in prepayments, $1.0 million of which was paid on April 26 and April 27, 2010.

Pursuant to the terms of the SPB APA, prepayments are not included in the calculation of the Closing Date Net Working Capital, so the value of the raw material prepayments do not affect the consideration or the Purchase Price

Adjustment. However, the SPB APA required the Applicants to continue to operate the SPB in the ordinary course prior to Closing.

Based on the Monitor's review of the Applicants' month-end prepaid purchases balance since filing, the balance appears to have ranged from $1.1 million to $1.9 million with one exception in December, 2009 (due to certain downtime for the SPB). The Monitor continues to review these disbursements to confirm they were made in the normal course, and in accordance with the Applicants' obligation to operate the SPB in the ordinary course under the SPB APA

Payment of BAM Legal Fees

15. Pursuant to the SPB APA, Brookfield Asset Management Inc. ("**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. In its Twelfth Report, the Monitor noted that the Applicants had reimbursed BAM in excess of $1.5 million in respect of such expenses, as a result of the Applicants' interpretation as to what the $1.5 million was to cover. BAM has since reimbursed the Applicants for such amount, which totalled approximately $179,000.

Claims against the Holdback Amount

16. The Monitor understands that Twin Rivers has recently advised the Applicants of potential claims totalling $150,000 against the Holdback Amount in respect of three liens related to the assets sold to Twin Rivers that were not discharged on the SPB closing and that Twin Rivers did not assume as part of the closing. The Monitor is in the process of reviewing these claims with the Applicants and the validity of same.

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

B. THE PROPOSED SALE OF THE GORHAM MILL

18. As set out in the McMillan October Affidavit, the financing condition of the Original Gorham Mill APA (which was approved by this Honourable Court in July 2010) was not met by the purchaser, despite several extensions and modifications to the terms of the Original Gorham Mill APA. As a result, on September 28, 2010, the Applicants terminated the Original Gorham Mill APA.

19. As there were no other purchasers and the Gorham Mill's operations continued to be unprofitable, management made the decision to close the mill. However, as a result of receiving sufficient acceptable orders from customers and with a view to utilizing as much of the raw materials on hand, the Applicants continued production at the Gorham Mill until October 13, 2010, when it was closed indefinitely and the majority of the employees were indefinitely laid off.

20. At the same time, the Applicants, in consultation with the Monitor, approached a number of other parties that had previously expressed interest in acquiring the Gorham Mill to establish whether they still had any interest in acquiring same. Those parties that did express an interest were provided with a template asset purchase agreement, with a requirement that they had until October 21, 2010 to submit an unconditional offer and the closing would have to be by November 30, 2010. The Monitor concurs with the Applicants' imposition of the tight timelines, which are necessary to minimize the costs of maintaining this mill during this interim period, particularly as winter approaches.

21. The Applicants have received a number of offers and, after review of same in conjunction with the Monitor, are currently negotiating with all offerors with a view to selecting the most favourable one for the Applicants' stakeholders within the next week. Once an unconditional APA has been executed, the Applicants will schedule a motion seeking the approval of same.

C. THE PROPOSED SALE OF THE MAINE LUMBER MILLS

22. As set out in the Monitor's Twelfth Report, the sales process for the Applicants' two lumber mills in Maine (the "**Maine Lumber Mills**") commenced on June 20, 2010, with

Letters of Intent ("**LOIs**") from interested parties due by August 20, 2010 (the "**LOI Deadline**").

23. On the LOI Deadline, the Applicants received multiple LOIs and, after review of same in conjunction with the Monitor, shortlisted selected parties (the "**Shortlisted Parties**") to enable them to conduct additional due diligence and work towards entering into a definitive APA. In this respect, the Applicants provided a draft template APA to each of the Shortlisted Parties and advised them that non-binding APAs were to be submitted by September 30, 2010.

24. The Applicants have received APA's from multiple parties and, in consultation with the Monitor, are in continuing negotiations with prospective purchasers with a view to arriving at acceptable terms.

D. POTENTIAL TRANSACTION INVOLVING BAM

25. On October 20, 2010, the Monitor attended a meeting with the Applicants, its counsel and BAM and its counsel. At that meeting, BAM advised that it would be interested in transactions involving a share purchase of the US Applicants (namely Fraser Papers Holdings Inc., Fraser Papers Limited ("**FPL**"), Fraser Timber Limited and Fraser N.H. LLC) by BAM or an affiliate coupled with a final plan of arrangement for all of the Applicants (the "**BAM Proposal**"). In the Monitor's preliminary view, if a transaction could be implemented along the lines contemplated by the BAM Proposal, it could facilitate a timely and cost effective completion of the Applicants' CCAA proceedings and provide a way for the Applicants to maximize the value of their remaining U.S. operations and assets.

26. The BAM Proposal would include the operating assets of Fraser Timber Limited (being the Maine Lumber Mills), but not of Fraser N.H. LLC (being the Gorham Mill). The Monitor understands that, as part of this transaction, BAM (as DIP Lender) would consent to the continued availability of the DIP Funding (subject to continued compliance with the facility's terms and conditions) as contemplated in the 19 week cash flow forecast for the period to February 28, 2011 filed by the Applicants in the October McMillan Affidavit (as detailed later in this report).

27. BAM's legal counsel has advised the Monitor that it is working towards delivering a letter of interest that reflects the principal terms of the BAM Proposal by November 4, 2010.

28. As BAM is non-arms length to the Applicants, the Monitor is aware of the potential for real or perceived conflicts of interest. As the Monitor understands that the BAM Proposal would encompass the Maine Lumber Mills (as flowing from ownership of the US Applicants shares), the Monitor has advised all potential purchasers of the Maine Lumber Mills that all APA's are to be sent to the Monitor, rather than to the Applicants directly. In addition, the Monitor has taken steps to ensure that no information on any offers received from third parties is to be shared by the Applicants with BAM until a binding APA for the Maine Lumber Mills has been negotiated.

29. Based on the Monitor's understanding of the BAM Proposal and in the event the net proceeds from the sale of the Gorham Mill and the Maine Lumber Mills are insufficient to fully repay the DIP Funding (which would necessarily include the costs to complete the CCAA proceedings), the BAM Proposal may provide a quick and efficient way of funding the completion of the Applicants' CCAA proceeding and dealing with any potential DIP funding gap risk. It may also provide a way for the Applicants to maximize the realizations derived from their remaining U.S. assets.

E. THE FLAMBEAU RIVER SETTLEMENT

30. In its Twelfth Report, the Monitor reported that the Applicants and Flambeau River Papers LLC ("**Flambeau**") were in negotiations whereby security related to a note receivable owing from Flambeau for $2.4 million plus any other future consideration would be released in return for Flambeau assuming all of the Applicants' obligations and liabilities in respect of the two landfills, which were secured by letters of credit totalling $2.7 million.

31. In late July, the Applicants, the Wisconsin Department of Natural Resources ("**WDNR**"), Flambeau and its wholly-owned subsidiary Park Falls Operator LLC ("**Park Falls**") agreed that Park Falls would assume Fraser Paper Limited's obligations and liability with respect to the maintenance of the landfills pursuant to an assumption agreement (the

"**Park Falls Assumption Agreement**") as defined in the Flambeau Settlement Agreement between Fraser Papers Limited, Fraser Papers Inc, Flambeau and Park Falls. Flambeau would also post letters of credit in an amount satisfactory to the WDNR, and WDNR would irrevocably release the letters of credit posted by the Applicants.

32. At a Court hearing on August 12, 2010, Justice Morawetz issued an Order approving the terms of a Settlement Agreement between FPL, Fraser Papers Inc. ("**FPI**"), Flambeau and Park Falls, and authorising FPL and FPI to complete the closing of the transaction described in the Settlement Agreement. This transaction was completed in September 2010.

F. THE REMAINING RESIDUAL ASSETS

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

    a) 10,000 redeemable preferred shares in Katahdin Paper Company LLC ("**Katahdin**"), an entity related to BAM, with a net book value of nil as at December 31, 2009. In its financial statements for the fiscal year ended December 31, 2009, the Applicants created a provision for the entire amount of this investment, as the Monitor understands that Katahdin is incurring operating losses and is highly leveraged, and the Applicants deemed that there was no realizable value to this investment. The Monitor is discussing with the Applicants how it will deal with this asset. The Monitor has not performed an analysis or valuation of these preferred shares;

    b) The Applicants have accumulated significant US and Canadian tax losses in the last several years. The Applicants are currently assessing whether these tax losses have any realizable value and, if so, the best means of realizing on this value;

c) A receivable related to 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. Subsequent to April 27, 2010, the Applicants invoiced Twin Rivers for the full amount of these costs. The Applicants have advised the Monitor that Twin Rivers has filed applications for the reimbursement of these amounts and will repay the invoice issued by the Applicants when it receives a refund in respect of these expenses. In this respect, a refund of $0.4 million has been included in the Cash Flow Forecast;

d) Fraser Timber Limited retains the minerals rights to certain Maine timberlands that it sold in 2005. The Applicants have advised the Monitor that the value of these mineral rights is unknown; however they do not ascribe any value to them. The Monitor is discussing with the Applicants how it will deal with this asset; and

e) The Monitor understands that the Applicants own a fishing camp on leased land in Northern Quebec. The land is leased from the Crown and is subject to an annual renewal. The Applicants have listed the fishing camp with a licensed realtor (Remax Tremblant Inc.) with a selling price of $0.1 million; net proceeds from the sale are expected to be minimal.

G. STATUS OF THE CLAIMS PROCESS

34. 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 October 27, 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 October 27, 2010

($000's)	Received	Total Claims Received	Claims Disallowed	Claims Allowed (b)(f)		Total Claims Assumed/Discharged due to Asset Sales		Balance of Claims Allowed		Claims Pending - To be Resolved		Dispute Notices Received		
	(#)	($)	($)	(#)	($)	(#)	($)	(#)	($)	(#)	($)	(#)	($)	Notes
Secured														
Lenders	7	76,090	50,000	1	26,090	1	26,090	-	-	-	-	-	-	(a)
Liens / Others	42	7,343	762	14	6,581	10	6,463	4	118	-	-	12	356	
Employee Claims	21	65,037	65,037	-	-	-	-	-	-	-	-	9	136	
Pension Claims	1	3,083	3,083	-	-	-	-	-	-			1	3,083	
Sub - Total	71	151,553	118,882	15	32,671	11	32,553	4	118	-	-	22	3,575	
Unsecured														
Lenders	7	25,251	215	2	25,036	1	25,000	1	36	-	-	-	-	
Trade	955	66,391	32,111	949	34,280	3	2,105	946	32,175	-	-	26	60,918	(b)
Employee Claims	153	396,606	233,576	34	12,292	1	11	33	12,281	4	150,738	50	11,107	
Pension Claims	16	783,431	493,708	5	289,723	-	-	5	289,723	-	-	3	159,490	(c)
Sub - Total	1,131	1,271,679	759,610	990	361,331	5	27,116	985	334,215	4	150,738	79	231,515	
Total	**1,202**	**1,423,232**	**878,492**	**1,005**	**394,002**	**16**	**59,669**	**989**	**334,333**	**4**	**150,738**	**101**	**235,090**	(d) (e) (f) & (g)
Claims/Dispute Notices still under Review										4	**150,738**	**12**	**76,740**	(b) & (h)
D&O Claims	**29**	**792**	**792**	**-**	**-**					**-**	**-**	**2**	**160**	
Late Claims	**68**	**4,376**	**4,099**	**3**	**277**							**2**	**5**	(f)

Notes:

(a) Allowed Secured Lender claims excludes the Brookfield Asset Management secured guarantee of $50M provided to CIT and CIBC - this claim has also now 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 Ethyl Corporation 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 Ethyl Corporation filed a Notice of Dispute, it valued its claim at $32MM. Ethyl Corporation has since withdrawn its Proof of Claim and Notice of Disallowance.

(c) Morneau Sobeco has been appointed as Administrator of the NB pension plans and has filed a placeholder claim for each of the New Brunswick plans based on the actuarial valuations as at April 28, 2010. As a result, it is expected that FSCO will withdraw its dispute for US$3MM. As at October 22, 2010 Davies had withdrawn its claim and dispute relating to the NB Hourly Plan and CEP had indicated that its claim and dispute relating to the NB Hourly plan would be withdrawn. As a result, the Monitor has reflected the withdrawal of both the Davies and CEP's claims and disputes relating to the NB Plans.

(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 wrong entity.

(e) The total allowed claims of 1005 do not include intercompany claims or 13 contingent claims, to be valued if accepted for voting and distribution purposes (being the claims of BAM, Brookfield US and Old Republic). However, contingent employee claims have been included in this total, the majority of which are pension claims of $242MM.

(f) Late claims (i) the allowed late claims, being two claims of Cascade, a claim filed by BNY and a claim filed by Source Atlantic Limited are included in the total allowed claims of 1005 claims; and (ii) the pending dispute notices relate to 2 employee claims valued at approximately $5,000.

(g) The only restructuring claims admitted relate to employee claims, which are included in the total claims allowed of 1005. No valid trade restructuring claims have been received or admitted

(h) The pending claims relate to (i) 2 SERP claims; and (ii) 2 OPEB claims, which are currently being evaluated.

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

a) Since the Monitor's Twelfth Report, 58 pending and disputed claims valued at $127.6 million have been resolved and/or withdrawn, which has narrowed the range of the claims pool for distribution purposes;

b) As the Gorham Mill and Maine Lumber Mill asset sales are still to be completed, there may be additional restructuring claims filed by creditors;

c) As reported in the Monitor's Twelfth Report, 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. Morneau recently filed placeholder claims in the amount of $125.0 million and $27.0 million for the pension deficit in the NB Hourly and Salary pension plans respectively. While the $27 million claim for the deficit in the NB Salary pension plan is in line with Morneau's previous estimate (as reported in the Monitor's Twelfth Report), the $125 million claim for the pension deficit in the NB Hourly pension plan is approximately $25 to $35 million higher than Morneau's previous estimate, apparently due to revisions in the assumptions being utilized. The Monitor will review the reasons for any changes, once the final calculation and proof of claim has been filed;

d) Morneau has advised that the recently filed proofs of claim are placeholder claims and the final claims and supporting documentation will be filed upon completion of the Pension Plan wind up reports. Morneau did not provide the Monitor with a timeline as to when the wind up reports would be complete;

e) Following the filing of the placeholder claim by Morneau, Davies withdrew its dispute in respect of a duplicate NB pension deficit claim. While CEP has not yet formally withdrawn its placeholder claim for the NB pension plan, the Monitor has not included this claim in the table above as it is a duplicate of the Morneau claim and is expected to be withdrawn shortly;

f) As noted in the June McMillan Affidavit and the Monitor's Twelfth Report, the New Brunswick pension plans' Administrator had advised the Applicants that it intended to file a deemed trust claim in respect of certain pre-filing contributions that it alleges were not made. The Administrator has since advised the Applicants and the Monitor that it will not be pursuing a deemed trust claim;

g) The value of all claims either assumed by the purchasers or paid upon closing of the SPB and Thurso Mill sales has 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; and

h) The claims table relates only to third party claims, and does not include inter-company claims among the various Applicants.

36. As noted in the claims table above, there are currently 12 disallowed claims valued at $76.7 million where a Notice of Dispute has been filed by the creditor and these disputes remain unresolved. Four of the disputed claims valued at $28.4 million relate to trade creditor claims, while the remaining eight disputes valued at $48.2 million relate to employee claims.

37. The Monitor has been working with creditors, the Applicants and its counsel to resolve the disputed claims. As noted earlier, since the Monitor's Twelfth Report, a significant portion of the disputed claims have been resolved and/or withdrawn. The majority of the remaining outstanding disputed claims are currently being addressed and/or are expected to be withdrawn or resolved over the next few months, as set out below:

a) two of the disputed claims valued at $36.7 million relate to a duplicate pension claim in Quebec and a claim on behalf of retirees for post-retirement benefits for employees in New Brunswick. Counsel for the Applicants has advised the Monitor that these claims are to be withdrawn. In addition, following the filing of the placeholder claim by Morneau, a $3.0 million disputed claim filed by the Ontario Superintendent of Financial Services in regards to the New Brunswick pension plan is expected to be withdrawn;

b) two of the disputed claims valued at $1.2 million have been forwarded to the Claims Officer for review. Since the preparation of the Table above, the Claims Officer has advised the Monitor that a claim in the amount of $1.0 million has been settled, with an allowed claim of $327,000 (€225,000);

c) one claim totalling $26.7 million is to be resolved by the Court; the Monitor understands that the Applicants' counsel is in discussion with the creditor's counsel to schedule court proceedings to address this claim over the next month;

d) two claims totalling $2.2 million are being determined by a labour arbitrator with the consent of the Claims Officer; and

e) the remaining disputed claims valued at approximately $5.9 million consist primarily of employee claims for severance, bonuses and post-retirement benefits as well as a limited number of smaller claims that are being reviewed by the Monitor. A number of the claims 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.

38. Four 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. The OPEB claims have been submitted to the Claims Officer, who has set a deadline of November 16, 2010 for the Claimants to make written submissions. The Applicants will have ten days to respond. The Claims Officer has scheduled a conference call for the end of November to discuss whether a *viva voce* hearing is required; reply materials are due the first week in December 2010. As a result, it is expected that the OPEB claim should be resolved by the end of December 2010. The Monitor, the Applicants and its counsel are still evaluating the SERP claims.

39. 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. Two disputed claims, with a nominal value, are subject to further review by the Monitor and the Applicants.

H. ACTUAL RECEIPTS AND DISBURSEMENTS FOR THE NINETEEN WEEK PERIOD FROM JUNE 14 TO OCTOBER 17, 2010

40. As shown in the table below, the Applicants' actual net cash flow for the nineteen week period from June 14 to October 17, 2010 was an inflow of $6.2 million, nearly $6.2 million better than the forecast.

Comparison of Adjusted Forecast to Actual Cash Flow For the Period from June 14, 2010 to October 17, 2010			
(US $000)	**Actual**	**Forecast**	**Variance**
			Fav/(Unfav)
Total Receipts	38,605	32,417	6,188
Disbursements:			
Raw Material Costs	21,377	18,022	(3,355)
Productions Overhead Costs	2,533	2,686	154
Selling, General & Admin Costs	1,807	2,089	282
Employee Costs	6,092	6,304	212
DIP Interest & Fees	312	274	(38)
Other	3,315	2,985	(331)
Total Disbursements	35,436	32,360	(3,076)
Net Cash Flow	3,169	57	3,111
Gorham mill net cash flow (not included in the forecast)	3,065	N/A	3,065
Total Net Cash flow	6,233	57	6,176
Opening Cash	321	321	-
Net BAM US DIP / CIT Loan Advances/(Repayments)	(5,237)	(330)	(4,907)
Ending Total Cash	1,317	48	1,269
Cummulative DIP Funding	13,453	15,520	(2,067)

41. The cash flow forecast for the period to October 17, 2010 (presented in the Monitor's Twelfth report) assumed the sale of the Gorham Mill would close on August 31, 2010. However, as noted in paragraph 18 of this report, the expected sale of the Gorham Mill did not close. Accordingly, the cash flow forecast did not include cash flows from the Gorham Mill for the period from August 31 to October 17, 2010. The net cash flow from the Gorham Mill for this period in the amount of $3.1 million has been included as a separate line item in the table above. The positive cash flow generated by the Gorham Mill since August 31, 2010 is largely due to the winding down of the business and the liquidation of inventory - to the extent possible raw material on hand was used to produce existing orders during the wind down period and purchases of raw materials were kept to a minimum in order to reduce ending inventory balances.

42. Excluding this amount, actual cash flows for the cash flow forecast period were $3.1 million better than forecast. Detailed explanations for the $3.1 million adjusted variance are provided in Appendix “B”. In summary, the principal reasons for the variances are:

a) A $6.2 million favourable variance in receipts, as compared to the forecast, primarily due to higher than forecast sales (due to lower than forecast machine downtime) and faster than forecast collections at the Gorham Mill; and a favourable variance in the collection of Other Receivables. The favourable variance in receipts at the Gorham Mill was partially offset by a shortfall in accounts receivables collections at Masardis due to lower than forecasted lumber prices and an unforecast slowdown in collection of accounts receivables; and

b) A $3.1 million unfavourable variance in disbursements, primarily due to higher than forecast raw material disbursements at the Gorham Mill (due to higher production levels, lower machine downtime and product mix) partly offset by lower than forecast log purchases at the Masardis lumber mill due to a timing difference.

43. As of October 17, 2010, the actual BAM US DIP Financing usage was $13.4 million, which is approximately $2.1 million below the forecast level and largely due to the higher than expected production and sales (and liquidation of inventory) at the Gorham Mill. This DIP balance includes outstanding letters of credit in the amount of approximately $5.2 million principally related to collateralization of workers compensation obligations in the U.S.

I. APPLICANTS’ CASH FLOW FORECAST FOR THE 19 WEEK PERIOD FROM OCTOBER 18, 2010 TO FEBRUARY 27, 2011

44. The Applicants have requested an extension of the Stay of Proceedings from November 5, 2010 to February 28, 2011.

45. In support of this request, the Applicants have prepared a 19 week cash flow forecast (the “**19 Week CFF**”) which covers the period from October 18, 2010 (the latest date actual

results are available for) to Sunday, February 27, 2011, which is attached hereto as Appendix "C".

46. The 19 Week CFF assumes that the sale of Gorham Mill and the Maine Lumber Mills are approved by the Court and close on or before November 30, 2010 and December 20, 2010, respectively. However, the 19 Week CFF does not reflect the expected proceeds from these sales to avoid prejudice to the Applicants, as negotiations with the potential purchasers are currently ongoing. Net proceeds from the sale of the Gorham Mill and the Maine Lumber Mills will be used to repay amounts owing under the BAM US DIP. The 19 Week CFF also assumes that the Gorham Mill remains indefinitely shutdown during the period to closing. The Masardis Lumber Mill (one of the two Maine Lumber Mills) is expected to operate at full capacity (with the exception of one week of downtime at the saw mill) during the period October 18, 2010 to closing, whereas the Ashland lumber mill (the second of the two Maine Lumber Mills) will remain closed.

47. The 19 Week CFF forecasts that the Applicants will incur a net cash outflow from operations of approximately $0.7 million during the period, comprised of total receipts of approximately $15.1 million and total disbursements of approximately $15.7 million. The net cash outflow will be funded by cash on hand as of October 18, 2010 and intermittent usage of the DIP financing throughout the 19 week period.

48. The 19 Week CFF reflects the following matters:

a) a decrease in profitability at the Maine Lumber Mills in the period to closing, resulting from an increase in raw material cost**s,** and an expected reduction in lumber prices. These negative factors will be offset partially by lower corporate costs (following the sale of the SPB and the closure of the Gorham Mill);

b) the preparation, sanction and implementation of a substantively consolidated Plan by February 28, 2011**;**

c) a limited amount of employee costs at the Gorham Mill to maintain the mill prior to the sale; and

d) an exchange rate of US$0.98/Cdn$1 throughout the 19 Week CFF period.

49. The DIP Lender has advised the Applicants that it is prepared to fund in accordance with the 19 Week CFF on the basis described in paragraph 26 of this report.

50. Based on the foregoing, the 19 Week CFF shows the Applicants have sufficient liquidity to fund the forecast net cash outflow during the period to February 27, 2011. However the Monitor understands that BAM, as DIP Lender, is closely monitoring advances under the DIP Loan relative to its ability to be repaid its secured liabilities and the sufficiency of its collateral.

51. The Applicants consider there could be circumstances where the DIP Funding is not fully repaid from cash realizations generated from the sale of the Applicants' remaining assets, and the BAM Proposal may provide better certainty that the DIP Funding will be fully repaid. The Monitor proposes to file a report with this Honourable Court once it receives and has had the opportunity to review the BAM Proposal.

J. RESIDUAL SECURED DEBT AND LIEN CLAIMS

52. After the sales of the Gorham Mill and the Maine Lumber Mill close, there will still be a limited number of creditors holding liens or security with amounts outstanding as follows, including:

a) the BAM DIP Financing, with a forecast balance on February 27, 2011 of $14.2 million before application of the proceeds from the sales of the Gorham Mill and the Maine Lumber Mills. Included in this total are outstanding letters of credit currently totalling $5.2 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;

b) any amounts owing to any other valid lien holders whose liens/security interests were vested off the respective assets sold in the various asset sales and whose claims attach to the proceeds from such sales; and

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

53. Based on the foregoing, the amount of the final obligations owing to these creditors cannot currently be determined with precision. As noted in prior Monitor's reports, it is anticipated that secured creditors or valid lien claimants will have priority to proceeds received from the sale of the Applicants' assets prior to any distribution to unsecured creditors.

54. It is also not yet determinable what the net cash proceeds will be from the sale of the remaining assets, namely the Gorham Mill, the Maine Lumber Mills and the Remaining Residual Assets, if any, and whether those proceeds will be sufficient to fully repay the DIP Loan or whether there will be a shortfall. Pursuant to the terms of the Initial Order, amounts owing at any time to the DIP Lender are secured by the DIP Charge in priority to all other parties. As such, in the event of insufficient cash proceeds to repay amounts owing to the DIP Lender, all proceeds and consideration received by the Applicants from the various sale transactions (including the Promissory Notes and the 49% common equity of Twin Rivers) would continue to secure the repayment of all amounts owing to the DIP Lender.

55. As a result of the foregoing matters, the quantum of consideration that may be available for distribution to the unsecured creditors cannot yet be determined.

56. The Monitor understands that any consideration that may be available for distribution to unsecured creditors will be distributed through a CCAA plan of arrangement. However, the terms of the Promissory Notes and shares representing the 49% common equity in Twin Rivers contain restrictions regarding their ability to be widely distributed, so as not to result in Twin Rivers being deemed to be a public company.

57. Accordingly, in the event of a distribution to unsecured creditors, they will not receive their pro-rata share of the Promissory Note and common equity of Twin Rivers on an

individual basis. Rather, they will receive an interest in each of the following trusts or similar vehicles, 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.

K. CCAA PLAN AND TIMING

58. Now that a significant portion of the Applicants' operations have been sold, management intends to draft and present a CCAA plan of arrangement (a "**Plan**"). The Plan that will be presented to the Applicants' creditors will facilitate a distribution of the realizations from the sale of the Applicants' assets to creditors. Although the Applicants intend to proceed in the preparation and presentation of a Plan shortly, it has to be noted that certain important aspects of the restructuring remain outstanding, including:

a) the net proceeds from the sale of the Applicants remaining assets have not yet been finalized;

b) there are $226.8 million of pending/disputed claims to be resolved and finally determined;

c) the final quantum of DIP funding required through to the completion of a Plan is not yet established. As highlighted in prior reports, if there are insufficient realizations from the sale of the Applicants assets to fully repay the DIP funding, the DIP Charge will continue to secure all amounts owing, and will cover all proceeds and consideration held by the Applicants; and

d) the terms of any Plan would need to consider the BAM Proposal to acquire the US Applicants' shares, all as described in section D of this report.

59. In starting to prepare a Plan, the Applicants have considered whether one Plan should be developed on the basis of substantive consolidation of all Applicants, or whether individual Plans should be filed for each of the six Applicants. The impact of a substantively consolidated Plan is that the realizations from the sale of all of the assets of all the Applicants become pooled (i.e. consolidated), as do all of the claims of unsecured creditors. As a result, in a substantively consolidated Plan, each creditor (no matter which Applicant they are a creditor of) gets the same pro-rata share of the consolidated assets available for distribution as all other unsecured creditors. This contrasts to an individual entity Plan, where each creditor receives their pro-rata share of the realizations generated by the sale of the assets of only the legal entity they are a creditor of and share pro-rata among creditors of just that legal entity.

60. As set out in detail in the McMillan October Affidavit, the Applicants operated on a consolidated basis with physical, operational and financial integration between Canada and the U.S., including centralized management, the provision of power, steam and pulp by FPI to FPL, many services being provided by one Applicant for the benefit of others, including, treasury, sales, product support, accounting and technical support. Moreover, the financial affairs of the Applicants are inextricably linked through various cross-guarantees and intercompany loans and advances.

61. The Applicants have prepared an analysis of the estimated asset values of the Applicants as well as the claims of creditors against each Applicant (the "**Recovery Analysis**") to assist in considering whether substantive consolidation is appropriate in the circumstances.

62. Set out below are the Monitor's comments based on its analysis of the Applicants' proposed approach to develop a Plan on a substantive consolidated basis:

   a) We have reviewed the Recovery Analysis and note that it is complex and necessarily utilizes a large number of significant assumptions, estimates and allocations, including:

(1) The allocation between FPI and FPL of the realizations received from the SPB Transaction, as no individual valuation of the assets at the date of sale was performed;

(2) The allocation of secured debt among the individual Applicants, as all secured debt was advanced to FPI (i.e. FPI was the sole borrower of all external debt) but this debt was guaranteed by all of the Applicants, each of whom had granted security over their assets. Further, some of the funds borrowed by FPI were ultimately used to finance activities by other Applicants as required, including operating costs, capital investments or other transactions;

(3) The inclusion of intercompany amounts owing, as the high level of integration and significant centralization of services (including treasury, banking and cash management) necessitated numerous intercompany transactions and relationships, including the funding of operating costs by FPI;

(4) The allocation of the post filing DIP Funding, which has been used to fund operating costs as well as centrally incurred professional fees; and

(5) Consideration of the disputed claims that are still to be resolved as part of the Applicants' claims process.

b) We note that certain creditors, principally in the U.S., may have the right to pursue their claim on a joint and several basis against the realizations from the sale of assets of other Applicants in the event individual Plans were developed;

c) We reviewed the historical financial results of the Applicants and note that in the years 2005 to 2008 (2009 was not included, as there were significant non-cash asset write downs and liability increases in 2009), FPI generated significant profits whereas the U.S. Applicants collectively reported significant losses. During this period of time, the US Applicants were funded by external debt, the proceeds of a rights offering by FPI, the sale of the Applicants' timberlands operations in Canada and the U.S. as well as the profits of the Canadian Applicants;

d) As all of the Applicants financial reporting has historically been focused on preparing consolidated financial information, the books and records of any one Applicant have not been maintained in a manner to facilitate an easy determination of the appropriate balances for inclusion in the Recovery Analysis. As a result, while it might be technically possible to review the Applicant's accounting records in order to review and potentially reduce or vary some of the allocations, this exercise would be time consuming, expensive and would likely not remove the need for allocations to be made. Moreover, it is likely that the results of such an exercise would not be conclusive in any event, and the allocations would still be subject to interpretation and/or potential litigation among the Applicants' stakeholders;

e) As set out in the McMillan October Affidavit, the 19 Week CFF has been prepared on the basis that a substantively consolidated Plan is prepared and the Plan is sanctioned by February 27, 2011. The Monitor understands that the DIP Lender is already concerned about the quantum of DIP Funding required to complete the CCAA proceedings. An extensive review of the Applicants' books and records, and the professional time that would be involved if creditors of individual Applicants sought to pursue allocations and distributions on an individual-entity basis, would be very expensive and necessitate additional DIP Funding over and above the amount included in the 19 Week CFF. In view of the DIP Lender's concerns as to the level of DIP Funding required to date, the Monitor believes that this would be negatively viewed by the DIP Lender; and

f) We have reviewed the impact of changing certain of the assumptions and allocations used in the Recovery Analysis. Depending on the interpretations adopted and assumptions used, in any one scenario certain creditor group(s) do fair better than other creditor group(s). However, in all the scenarios we have considered, recoveries vary and no creditor group consistently obtains a materially higher recovery than any other creditor group.

63. Based on the foregoing, the Monitor is of the view that a substantive consolidation approach for development of the Plan is appropriate in the circumstances.

L. MONITOR'S RECOMMENDATIONS

64. The Monitor is of the view that the Applicants continue to act in good faith to maximize value for all stakeholders.

65. The Monitor is of the view that the Applicants should be authorized to prepare the Plan on a substantively consolidated basis.

66. Based on the foregoing, and in view of the Applicants' forecast liquidity, the Monitor recommends the Court extend the Stay to February 28, 2011. The Monitor proposes to file a report with this Honourable Court once it receives and has had the opportunity to consider the BAM Proposal with the Applicants.

67. The Monitor is not aware of any material adverse changes to the Applicants' operations in Canada or the US not otherwise detailed in this or prior reports 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 Thirteenth Report.

Dated at Toronto, Ontario this 1st day of November, 2010.

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

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.

19. On July 7, 2010, the Court issued an Order approving the sale of the Gorham mill and vesting the assets in the purchaser, MB Growth Partners II, LP, approving the offer solicitation process for the sale of the Applicants' two lumber mills located in Maine, extending the stay of proceedings to October 29, 2010, amending the initial order and appointing Andrew Diamond as Claims Officer in addition to Justice Ground. On August 12, 2010, t he Court issued an Order approving the terms of a Settlement Agreement between Fraser Papers Limited, Fraser Papers Inc., Park Falls Operator LLC, and Flambeau River Papers LLC and authorising Fraser Papers Limited and Fraser Papers Inc to complete the closing of the transaction described in the settlement agreement.

20. On September 29, 2010, the Court issued and Order extending the stay period by seven days from October 29 up to and including November 5, 2010.

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Appendix B

Variances between Cash Flow Forecast and Actual Cash Flows

For the Period June 14 to October 17, 2010

The Cash Flow Forecast for the period June 14 to October 29, 2010 (as presented in the Monitor's Twelfth report) assumed the Gorham Mill sale would close on August 31, 2010, hence the Cash Flow Forecast did not include cash flows for the Gorham mill for the period after August 31, 2010. However, the closing of the sale of Gorham mill has not yet occurred and the Gorham Mill continued to operate during the period August 31 to October 13, 2010.

In the Adjusted Combined Forecast to Actual Cash Flow table shown below, the $3.1 net cash flow from the Gorham Mill during the period August 31 to October 17, 2010 is 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 June 14, 2010 to October 17, 2010			
(US $000)	**Actual**	**Forecast**	**Variance**
			Fav/(Unfav)
Total Receipts	38,605	32,417	6,188
Disbursements:			
Raw Material Costs	21,377	18,022	(3,355)
Productions Overhead Costs	2,533	2,686	154
Selling, General & Admin Costs	1,807	2,089	282
Employee Costs	6,092	6,304	212
DIP Interest & Fees	312	274	(38)
Other	3,315	2,985	(331)
Total Disbursements	35,436	32,360	(3,076)
Net Cash Flow	3,169	57	3,111
Gorham mill net cash flow (not included in the forecast)	3,065	N/A	3,065
Total Net Cash flow	6,233	57	6,176
Opening Cash	321	321	-
Net BAM US DIP / CIT Loan Advances/(Repayments)	(5,237)	(330)	(4,907)
Ending Total Cash	1,317	48	1,269
Cummulative DIP Funding	13,453	15,520	(2,067)

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

RECEIPTS

A $6.2 million favourable variance with respect to cash receipts principally due to the following:

i. Trade accounts receivable collections were approximately $4.5 million higher than expected as a result of:

   a. The Gorham Mill receipts were approximately $5.7 million higher than forecast, due to better than forecast sales ($3.4 million) and better than forecast collections ($2.3 million);

   b. In addition, a change in sales product mix (more paper than towel) at the Gorham Mill resulted in an $84/ton increase in average sale prices; and

   c. The increase in the Gorham Mill receipts was offset partially by a $1.2 million shortfall in Lumber receipts, due to lower than forecast lumber prices and the timing of collections. The average Boston Lumber price was $304 per ton during the period, as compared to a projected price of $325 per ton.

ii. A favourable variance of approximately $1.7 million in the collection of other accounts receivable due to:

   a. The receipt of approximately $0.7 million in GST related to Plaster Rock that was not projected. The GST refund related to a period prior to the SPB sale and had been delayed;

   b. The receipt of approximately $0.7 million from Twin Rivers to reimburse the Applicants for the early payment of invoices on April 26-27, 2010 and employee wages and benefits; and the reimbursement of $0.2 million overpayment to Everest Management;

c. The receipt of various miscellaneous amounts totalling approximately $0.6 million that were not included in the Cash Flow Forecast; and

d. These amounts were offset by approximately $0.4 million that was reimbursed to Katahdin for sales collected by the Applicants in a prior period on its behalf. This is a timing issue. The cumulative net impact on the Applicants' net cash flow of these transactions is Nil.

DISBURSEMENTS

Raw Material Costs

A net unfavourable variance of approximately $3.3 million in Raw Material Costs as a result of:

i. An unfavourable variance of approximately $3.9 million at the Gorham Mill due to:

   a. A $3.4 million increase in raw material costs as a result of higher production levels at the Gorham Mill. The mill operated 12 days per machine more than forecasted during the forecast period,

   b. An unfavourable variance of approximately $0.5 million related to a change in product mix that required the purchase of more expensive fibre, and

ii. A favourable variance of $0.6 million at the Masardis lumber mill mainly due to lower wood purchases. This is a timing difference as management delayed the purchase of logs during a rainy period as the logs would have been more expensive.

Gorham Mill Cash flow for the post August 31, 2010 period

As shown in the table above, the Gorham Mill incurred a positive net cash flow of $3.1 million for the period August 31 to October 17, 2010. As set out earlier in this report, the Applicants started to reduce raw material inventory at the end of August 2010 and began to wind down operations in late September. Hence, to the extent possible, raw material on hand was used to produce existing orders and purchases of raw materials were kept to a minimum in order to reduce ending inventory balances.

Appendix C

19-Week Cash Flow Forecast

For the Period October 18, 2010 to February 27, 2011

Fraser Paper Inc. et al.
Combined 19 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**	**Total**	
Week Beginning	**18-Oct**	**25-Oct**	**1-Nov**	**8-Nov**	**15-Nov**	**22-Nov**	**29-Nov**	**6-Dec**	**13-Dec**	**20-Dec**	**27-Dec**	**3-Jan**	**10-Jan**	**17-Jan**	**24-Jan**	**31-Jan**	**7-Feb**	**14-Feb**	**21-Feb**	**19 Weeks**	Note 1 and 13
Receipts																					
Collection of Trade Accounts Receivable	2,036	3,290	2,680	1,193	1,301	1,013	742	801	801	801	-	-	-	-	-	-	-	-	-	14,656	Note 2
Collection of Other Accounts Receivable	7	-	-	-	-	-	-	388	-	-	-	-	-	-	-	-	-	-	-	395	Note 3
Total Receipts	2,043	3,290	2,680	1,193	1,301	1,013	742	1,189	801	801	-	-	-	-	-	-	-	-	-	15,051	
Disbursements:																					
Raw Material Costs	540	398	577	445	445	445	555	496	496	457	-	-	-	-	-	-	-	-	-	4,853	Note 4
Production Overhead Costs	259	119	141	85	225	85	87	86	226	110	-	-	-	-	-	-	-	-	-	1,422	Note 5
Selling, General & Admin Costs	135	135	135	135	82	82	82	85	85	85	27	27	27	27	27	27	27	27	27	1,281	Note 6
Employee Costs	347	1,355	196	276	247	276	281	269	202	199	14	20	14	20	14	20	14	20	14	3,796	Note 7
DIP Interest & Fees	13	13	23	14	11	11	22	12	10	11	11	19	9	10	10	20	11	11	12	253	Note 8
Capital Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Note 9
Other	583	73	200	-	294	441	196	-	39	294	490	98	-	294	245	318	-	294	245	4,101	Note 10
Total Disbursements	1,876	2,092	1,271	955	1,303	1,340	1,222	947	1,059	1,155	541	163	50	349	295	385	52	351	297	15,706	
Net Cash Inflow/(Outflow)	**167**	**1,197**	**1,408**	**238**	**(2)**	**(328)**	**(481)**	**241**	**(258)**	**(354)**	**(541)**	**(163)**	**(50)**	**(349)**	**(295)**	**(385)**	**(52)**	**(351)**	**(297)**	**(655)**	
Opening Cash Balance	1,397	1	1,198	1,606	1,345	1,342	1,514	1,514	1,514	1,514	1,514	1,514	1,514	1,514	1,514	1,514	1,514	1,514	1,514	1,397	
DIP Funding / (Repayments)	(1,563)	-	(1,000)	(500)	-	500	481	(241)	258	354	541	163	50	349	295	385	52	351	297	772	Note 11
Closing Cash Balance	**1**	**1,198**	**1,606**	**1,345**	**1,342**	**1,514**	**1,514**	**1,514**	**1,514**	**1,514**	**1,514**	**1,514**	**1,514**	**1,514**	**1,514**	**1,514**	**1,514**	**1,514**	**1,514**	**1,514**	
Cummulative DIP Funding Usage	11,883	11,883	10,883	10,383	10,383	10,883	11,364	11,123	11,380	11,735	12,276	12,439	12,489	12,838	13,134	13,518	13,570	13,921	14,218	14,218	Note 12

This cashflow forecast must be read in conjunction with the notes and assumptions attached hereto and the Affidavit of Mr. Glen Mc Millan Sworn on October 27, 2010

Fraser Papers Inc. et al.
Combined 19 Week Cash Flow Forecast
Notes and Assumptions.

1 Operational status – The 19 week cash flow forecast ("CFF') is premised on the assumption that the Gorham mill was shut down on October 13, 2010 and will not operate during the CFF period. The Masardis lumber mill will operate at full capacity, with the exception of one week of saw mill downtime in October 2010, until it is forecasted to be sold during the week of December 20, 2010. The Ashland mill will remain closed throughout the CCF period. The Gorham mill is forecasted to be sold during the week of November 29, 2010. The net proceeds from these asset sales are not included in the CFF (to avoid compromising these sales activities), but will be used to repay the BAM DIP when received.

2 Collection of Third Party Trade Accounts Receivable consists of cash receipts from the Gorham mill and the Masardis lumber mill, based on current accounts receivable balances, management's updated revenue forecasts and the expected dates of sale. The timing of cash receipts is based upon historical and seasonal collection patterns.

3 Collection of Other Accounts Receivable includes collections of approximately $388K in credits from the Canadian Federal Government Pulp and Paper Green Transformation Program in December 2010. With the sale of the Canadian operations, there are minimal monthly GST and HST refunds.

4 Raw Material Costs represent materials required for production, primarily logs. The raw material disbursements are based on historical costs, analyst and economic forecasts, expected required purchases throughout the 19 week period, and arrangements that have been negotiated with suppliers. Working capital levels are expected to decrease throughout the forecast period due to the closure of the Gorham mill on October 13, 2010.

5 Production Overhead Costs primarily represent supplies, consumables, repairs and maintenance. These costs are based on forecast production levels, historical costs, expected costs based on the forecast operations of the Masardis mill, maintenance costs at the Gorham mill prior to the sale 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.

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 the Masardis mill and a payment of accrued vacation pay for former Gorham employees terminated on the closure of the Gorham mill. Other post-employment benefits include approximately CAD $1,156K to prepay premiums for life insurance coverage for certain salaried retirees and certain former hourly employees of the Thurso facility.

8 DIP Interest and Fees are based on the DIP Loan Financing Agreements of BAM US and include interest and fees relating to the $5.2 million of outstanding letters of credit.

9 There is no capex forecast for the Ashland, Masardis or Gorham mills during the forecast period.

10 Other expenses primarily represent professional fees in respect of the CCAA Proceedings including the Applicants' US and Canadian legal counsel, the Monitor and its legal counsel, the claims officer and Davies (representative counsel for employees and former employees not otherwise represented). These fees assume a substantively consolidated plan is developed, presented and finalized during the 19 week period. No costs (excluding professional fees) to implement the plan are included in the CFF.

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

12 Cumulative DIP Draws includes the outstanding L/C's, which totalled $5.2 million as at October 27, 2010.

13 The Consolidated 19 Week Cash Flow is denominated in USD. A US$/C$ exchange rate of $0.98 has been assumed during the Cash Flow Forecast period.