

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

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

MONITOR'S SIXTEENTH REPORT TO THE COURT

January 11, 2011

**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 and FRASER N.H. LLC

Applicants

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

INTRODUCTION

1. Pursuant to the Meeting Order issued by this Court on December 3, 2010, a Meeting of Creditors was held on January 10, 2011.
2. The purpose of this, the Monitor's Sixteenth Report, is to provide stakeholders and the Court with information pertaining to:
 - a) the mailing of the Notice of Creditors and Meeting Materials;
 - b) the results of the Meeting of Creditors held on January 10, 2011;
 - c) the Monitor's activities to attempt facilitate an acceptable CCAA plan to all parties;
 - d) the closing of the sale of the Gorham Mill;

- e) the finalization of the SPB Closing Balance Sheet; and
 - f) the status of the Claims Process.
3. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. Dollars.
 4. Capitalized terms used herein and not otherwise defined herein, are as defined in the Initial Order, the Claims Process Order, the Meeting Order, the Monitor's fifteen prior reports, and as defined in the Claims Process Order. This report should be read in conjunction with the Affidavit of Glen McMillan sworn January 11, 2011 (the "**McMillan January 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.

A. MAILING OF THE NOTICE OF CREDITORS AND MEETING MATERIALS

6. On December 3, 2010, this Honourable Court made an Order (the "**Meeting Order**") accepting the filing of the Plan and authorizing and establishing the procedure for Affected Creditors of Fraser Papers (as defined in the Plan) to consider and vote on the Plan. The Monitor's analysis and recommendations with respect to the Plan are provided in the Monitor's Fifteenth Report dated December 2, 2010.
7. The Meeting Order established the procedure for providing notice of the Creditors' Meeting to the Affected Creditors and for distribution of the Meeting Materials (as defined in the Meeting Order).
8. Pursuant to the Meeting Order, an electronic copy of the Meeting Materials was posted to the Monitor's website on December 8, 2010.

9. Pursuant to the Meeting Order, on December 8, 2010 the Monitor sent a copy of the following documents by email to 1,011 Affected Creditors and/or their legal counsel and the 59 individuals and/or firms included on the Service List:
 - a) the Plan Executive Summary (in English and French);
 - b) the Form of Proxy (in English and French);
 - c) the Notice to Creditors (in English and French); and
 - d) a link to the Monitor's website to allow such Affected Creditors to access and obtain copies of all other Meeting Materials.
10. Forty-four of the emails were returned as invalid. The Monitor subsequently sent by regular mail the Meeting Materials to these Affected Creditors, whose emails were invalid.
11. Pursuant to the Meeting Order, on December 9 and 10, 2010, the Monitor sent a copy of the Meeting Materials by regular mail to 679 Affected Creditors, who had either not provided the Monitor with an email address or had elected to receive the Meeting Materials by regular mail.
12. Twelve of the mailed Meeting Materials packages were returned due to invalid mailing addresses. The Monitor attempted, but was unable to obtain valid addresses for these Affected Creditors, who were primarily former employees of Fraser Papers.
13. Pursuant to the Meeting Order, the Notice of the Meeting was published in the December 10, 2010 editions of *The Globe and Mail* (National Edition) and the *Wall Street Journal* (US Edition), and a number of local newspapers (as set out in the Meeting Order) on various dates between December 8 and 10, 2010.
14. Pursuant to the Meeting Order, service and publication of the Notice to Creditors and the posting of the Meeting Order on the Monitor's website constituted good and sufficient notice of the Plan Sanction Hearing.

15. The Applicants also held three creditor information calls on December 17 and 20, 2010, where employees, former employees and trade creditors were provided with an overview of the Plan and a forum to have their questions answered.
16. On December 29, 2010, the Monitor, on behalf of the Applicants forwarded a letter to Affected Creditors (by email and regular mail depending on the Affected Creditor's preferred method of service), reminding them to exercise their right to vote on the Plan either by attending the Meeting of Creditors in person or by forwarding their proxy to the Monitor.

B. RESULTS OF THE CREDITORS' MEETING FOR THE UNSECURED CREDITOR CLASS

17. For the purposes of considering and voting on the Plan, the Meeting Order established one class of creditors (the "**Unsecured Creditors' Class**").
18. The Meeting of the Unsecured Creditor Class (the "**Meeting of Creditors**") to consider and vote on a resolution to approve the Plan ("**Plan Resolution**") was held on January 10, 2011 at the Hyatt Regency Toronto, 370 King Street W., Toronto, ON. The meeting commenced at 10:24 A.M. (E.S.T.) and was conducted in accordance with the Meeting Order.
19. Mr. John McKenna, a representative of the Monitor, acted as Chair (the "**Chair**") of the Meeting.
20. Michelle Pickett, a representative of the Monitor, acted as Secretary and took minutes of the discussions held and decisions made at the Creditors' Meeting.
21. Tracey Weaver and Jennifer Wong, representatives of the Monitor, acted as Scrutineers and tabulated the votes cast in respect of Unresolved Claims (including duplicate claims).
22. Prior to commencing the Meeting, the Chair confirmed that the quorum required by the Meeting Order was present, in person or by Proxy, and as such the Meeting was duly constituted in accordance with the provisions of the Meeting Order.

23. A total of 306 Affected Creditors having Proven Voting Claims totalling \$317,263,264 were in attendance, in person or by proxy, at the Meeting.
24. A total of 4 Affected Creditors with Unresolved Claims totalling \$29,515,120 were also in attendance, in person or by proxy, at the Meeting.
25. A total of 2 Affected Creditors with Duplicate Claims totalling \$137,378,246 were also in attendance, in person or by proxy at the Meeting.
26. The voting on the Plan Resolution, by the Affected Creditors with Proven Voting Claims, at the Meeting was as follows:

Results of Vote of Proven Voting Claims				
	By Number		By Value	
<i>Requisite majority required to approve Plan</i>	50.01%		66.67%	
Creditors	Number	%	\$	%
Voting For	290	94.8	132,151,783	41.7
Voting Against	16	5.2	185,111,481	58.3
Total	306	100.0	317,263,264	100.0
	Requisite Majority Obtained		Requisite Majority Not Obtained	

27. Based on the above results, 94.8% of the Affected Creditors present and voting, in person or by proxy, representing 41.7% of the value of the Proven Voting Claims voted to approve the Plan, while 5.2% of the Affected Creditors present and voting, in person or by proxy, representing 58.3% of the Proven Voting Claims voted against the Plan.
28. Based on the foregoing, the requisite majority of creditors required to vote for the Plan by value was not obtained and the Plan was therefore not approved..
29. In accordance with the Meeting Order, the Scrutineers also separately tabulated the votes cast in respect of Unresolved Claims, including Duplicate Claims.

30. The Chair reported at the Meeting that four Unresolved Claims (excluding Duplicate Claims) with a total value of \$29,515,120 were voted in the Unsecured Creditors' Class. The voting on the Plan Resolution by the Affected Creditors holding Unresolved Claims at the Meeting was as follows:

Results of Vote of Unresolved Claims (excluding Duplicate Claims)				
	By Number		By Value	
Creditors	Number	%	\$	%
Voting For	1	25.0%	26,758,897	90.7%
Voting Against	3	75.0%	2,756,223	9.3%
Total	4	100.0	29,515,120	100.0

31. The Chair reported at the Meeting that two Unresolved Duplicate Claims (which related to amounts owed in connection with two defined benefit pension plans) with a total value of \$137,378,246 were voted in the Unsecured Creditors' Class. The voting on the Plan Resolution by the Affected Creditors holding Unresolved Duplicate Claims at the Meeting was as follows:

Results of Vote of Duplicate Claims				
	By Number		By Value	
Creditors	Number	%	\$	%
Voting For	0	0.0%	0	0.0%
Voting Against	2	100.0%	137,378,246	100.0%
Total	2	100.0	137,378,246	100.0

32. In accordance with the Meeting Order, since these votes cast in respect of the Duplicate Claims were not contradictory, the votes in respect of each claim to which each Duplicate Claim relates have been counted in the results set out in paragraph 26 above.
33. The Affected Creditors did not vote in respect of any other matters at the Meeting.

C. MONITOR'S ACTIVITIES TO ATTEMPT TO FACILITATE AN ACCEPTABLE PLAN TO ALL PARTIES

34. As part of matters leading up to the vote and the concerns being advanced by the Administrator of the NB Plans (“**Morneau Sobeco**”) and the CEP, the Monitor engaged in discussions with the Applicants, these parties and their legal counsel. Based on these discussions, on January 4, 2011, the Monitor wrote to Morneau Sobeco, the CEP, as well as the Superintendent of Pensions for New Brunswick and Representative Counsel for the Committee of Salaried Employees and Retirees, the Applicants and BAM and invited them to an “in-person”, without prejudice and confidential meeting on January 6, 2011.
35. The meeting commenced late in the day on January 6, 2011 and continued on January 7, 2011. The Monitor met with these parties on a one-on-one basis, and as part of a larger meeting and subset of the parties. The goal of the meeting was to assist stakeholders in trying to narrow and/or resolve a limited number of discrete matters in reaching a mutually agreeable solution.
36. Discussions continued over the weekend of January 8 and 9, 2011 and concluded in the morning of January 10, 2011, when it became clear that an impasse had been reached. The Monitor believes it is unfortunate the parties could not resolve these issues, but believe all effort was made to do so prior to the meeting.

D. CLOSING OF THE SALE OF THE GORHAM MILL

37. On December 16, 2010, the Applicants concluded the sale of the Gorham Mill to Counsel RB Capital, LLC (“**Counsel RB**”). The closing of the sale was expected to occur on December 8, 2010, however the Asset Purchase Agreement was amended with the consent of the Monitor on December 6, 2010 to extend the closing to December 16, 2010.
38. Net cash proceeds from the sale were approximately \$2.6 million after adjusting for outstanding real estate taxes.
39. The Monitor notes that Counsel RB did not assume any of the Gorham Mill’s outstanding liabilities, including accrued wages and benefits, and vacation pay and the pre and post

filing liabilities to trade creditors. As a result, the adjusted net cash proceeds, after deduction of these expenses, were approximately \$2.3 million.

E. FINALIZATION OF SPB CLOSING BALANCE SHEET

40. On April 28, 2010, the Applicants completed the sale of their Speciality Paper Business (“**SPB**”) to Twin Rivers Paper Company Inc. (“**Twin Rivers**”).
41. Pursuant to the SPB asset purchase agreement (“**SPB APA**”), the purchase price was subject to adjustment for the difference between an estimate, prepared by the Applicant’s management (“**Management**”) and the actual working capital balance on closing. Pursuant to the SPB APA, the Applicants had up to 60 days after the closing date of the SPB sale to prepare the actual final balance sheet as of April 28, 2010 (the Closing Date Balance Sheet, as defined in the SPB APA). The SPB APA provided that once the Closing Date Balance Sheet was accepted by Twin Rivers, the Promissory Note would be adjusted for any differences between the estimated and actual Closing Date Net Working Capital balances.
42. As noted in previous Monitor’s reports, the Monitor has been working diligently with the Applicants to finalize the Closing Balance Sheet and resolve outstanding queries over the past six months.
43. As a result of the completion of this work, the Promissory Note has been increased to \$44.5 million and Twin Rivers has made cash reimbursements totalling \$1,073,000.

F. THE STATUS OF CLAIMS PROCESS

44. Set out below is a summary of the Proofs of Claim received and their status as at January 9, 2011 which shows that, as at that date, there were 1,069 allowed claims having a value of approximately \$333.3 million.
45. The summary reflects that, since the Monitor’s Fifteenth Report, a number of pending and disputed claims have been either resolved and/or withdrawn, which has narrowed the range of the claims pool for distribution purposes.

FRASER PAPERS INC./PAPIERS FRASER 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 January 9, 2011

(\$000's)	2003-04 Summary as at December 31, 2002								2002-03 Summary as at December 31, 2001		Notes
	Value of Allowed Claims		Unresolved Claims (valued for Voting Purposes)		Total Allowed Claims (unsecured only for Voting Purposes)		Unresolved Dispute Notices		Duplicate Claims		
	(#)	(\$)	(#)	(\$)			(#)	(\$)	(#)	(\$)	
<u>Secured</u>											
Lenders	-	-	-	-	-	-	-	-	-	-	
Liens / Others	2	79	-	-	2	79	-	-	-	-	(a)
Employee Claims	-	-	-	-	-	-	-	-	-	-	
Pension Claims	-	-	-	-	-	-	-	-	1	3,083	(c)
Sub - Total	2	79	-	-	2	79	-	-	1	3,083	
<u>Unsecured</u>											
Lenders	1	36	-	-	1	36					
Trade	809	31,635	-	-	809	31,635	1	26,759			(a) (d)
Employee Claims	252	12,579	69	9,437	321	22,016	3	2,756	3	14	(b) (d)
Pension Claims	5	288,978	-	-	5	288,978			2	137,378	(c)
Sub - Total	1,067	333,228	69	9,437	1,136	342,665	4	29,515	5	137,392	
Total	1,069	333,307	69	9,437	1,138	342,744	4	29,515	6	140,475	

Notes:

- (a) Excludes the contingent claims that have no amounts allowed as at the date of this report being (i) secured claims of BAM and Old Republic; and (ii) unsecured claim of Brookfield US.
- (b) The value of the Unresolved Claims relates to the employee claims for SERP. In addition, a recent decision was rendered by the Claims Officer with respect to employee claims relating to OPEB, who, as at the date of this report, have no Proven Voting Claims.
- (c) Allowed claims include four contingent placeholder claims in respect of the NB Hourly and Salaried Pension Plans and the Quebec Hourly and Salaried Pension Plans. The placeholder claims were accepted by the Monitor on a contingent basis, pursuant to its issuance of a Notice of Revision and Disallowance ("NOD") to the Pension Plans. At the time the Monitor issued the NODs (2009) the pension plans had not been terminated, hence the final value of the pension claims could not be determined. The placeholder claims were contingently accepted pending final valuation of the pension claims upon termination of the pension plans. Momeau Sobeco has since 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 duplicate claim for \$3.1 million. In addition CEP have filed a Dispute Notice with respect to the NB Hourly Plan and the Quebec Thurso Hourly Plan, the votes of which have been recorded by the Monitor pursuant to paragraph 26 of the Meetings Order, at the values filed by the pension plan administrator.
- (d) The Unresolved Dispute Notices relate to (i) MGP's unsecured claim of \$26.7 million, which has been schedule before the Court for February 22, 2011; (ii) CEP claim of \$1.4 million relating to post-retirement benefits for Thurso employees; (iii) SCEP claim of \$751K, relating to grievances. A decision was rendered by the Labour Arbitrator on January 4, 2011 in respect of the two CEP Quebec claims. This decision only determined that the claims may properly be asserted against the Applicants. The decision did not determine the quantum of the claim, hence the disputes remain unresolved; and (iv) a dispute with Syndicate des Communications for \$528K, which is still being reviewed by the Applicants and the Monitor.

46. Recent decisions rendered by the Claims Officer have resolved a number of pending and disputed claims, including two OPEB (Other Post Employment Benefits) claims totalling \$141 million, which were filed on behalf of US and Canadian Employees. Pursuant to a recent decision of the Claims Officer, these claims were valued at nil for voting and distribution purposes.

47. As of the date of the filing of this report, there were six claims having a value of approximately \$39.0 million that remain unresolved, comprised of:
- a) four disallowed claims valued at \$29.5 million where a Notice of Dispute has been filed by the creditor and the disputes remain unresolved; and
 - b) two claims totalling \$9.4 million that are still pending.
48. As of the date of the filing of this report, there were also six duplicate claims totalling \$140.5 million where a Notice of Dispute has been filed by the creditor and the disputes remain unresolved.

Disputed Claims

49. The remaining disputed claims consist of one trade claim and three employee related claims and are being addressed as follows:
- a) one claim totalling \$26.8 million (from MGP Papier) is to be resolved by the Court. The Monitor understands that a court hearing had been scheduled for late February 2011 to address this claim; although next steps will have to be considered by the Applicants in view of available cash resources;
 - b) two claims involving CEP in Quebec totalling \$2.2 million were put before a labour arbitrator by agreement of the parties in December 2010. The Monitor understands that a decision was rendered by the Labour Arbitrator on January 4, 2011. This decision only determined that the claims may properly be asserted against the Applicants, but not the quantum of these claims. Hence, they remain as disputed claims; and
 - c) one claim totalling \$528,000, which is still being reviewed by the Applicants and the Monitor.

Pending Claims

50. The two pending claims outstanding are in respect of the Applicants' supplemental employee retirement plans ("SERPs"). The Applicants are contesting the calculation of the SERP claim. The Monitor, the Applicants and its counsel are still evaluating the two SERP claims.

Duplicate Claims

51. The outstanding Duplicate Claims consist of a \$110.1 million claim in respect of the New Brunswick Hourly Pension Plan filed by the CEP, a \$27.2 million claim in respect of the Quebec Hourly Pension Plan filed by the CEP, a \$3.1 million claim from the Ontario Superintendent of Financial Institutions in respect of the New Brunswick Hourly Plan and three negligible employee claims.

NB Pension Proceedings

52. In connection with the appeal of the November Pension Decision that took place in New Brunswick on December 29 and 30, 2010, all as described in the McMillan January Affidavit, the Monitor sent a letter to the Vice-Chairperson of the Labour and Employment Board of New Brunswick (the "**Board**") on December 30, 2010 to ensure that he was aware of the terms of certain Orders in the CCAA proceedings and relating to the NB Hourly Plan. On December 31, 2010, the Monitor received an email from the Vice-Chairperson indicating that these Orders were received in evidence, and received due attention and consideration at the appeal hearing.
53. Based on paragraph 74 of the appeal decision of the Board dated January 7, 2011 relating to the November Pension Decision, a copy of which is attached to the McMillan January Affidavit, the Monitor has concerns as to whether the paramountcy of the CCAA Court and Orders made by the CCAA Court were fully taken into account with respect to the appeal. The Monitor will continue to monitor these matters and may take steps, if needed, with respect to matters affecting the Applicants and/or its stakeholders.

G. SUMMARY

54. Prior to the vote on the Plan, the DIP Lender had informed the Monitor that if the Plan was not approved, the DIP lender may withdraw its support for Fraser Papers, which might include withdrawal of funding support and/or actions to seek the termination or material modification of the CCAA proceedings. This position was relayed by the Monitor to the opposing creditors prior to the vote.
55. The Monitor will be discussing next steps with the DIP Lender and the Applicants. The Monitor expects that the DIP Lender will take all steps to ensure recovery of the outstanding DIP Loans and that the Applicants continued access to funding will be dependent on the DIP Lender.

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

Dated at Toronto, Ontario this 11th day of January 2011.

PricewaterhouseCoopers Inc.

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



John McKenna
Senior Vice President