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 SEVENTEENTH REPORT TO THE COURT

JANUARY 31, 2011

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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 and FRASER N.H. LLC

Applicants

SEVENTEENTH REPORT TO THE COURT ON THE APPLICANTS' REQUEST FOR A SUPPLEMENTAL MEETING ORDER IN CONNECTION WITH AN AMENDED CONSOLIDATED PLAN OF COMPROMISE AND ARRANGEMENT SUBMITTED BY PRICEWATERHOUSECOOPERS INC. IN ITS CAPACITY AS MONITOR OF THE APPLICANTS

INTRODUCTION

1. On June 18, 2009, Fraser Papers Inc. ("**FPI**"), FPS Canada Inc. ("**FPSC**"), Fraser Papers Holdings Inc. ("**Fraser Holdings**"), Fraser Timber Limited ("**FTL**"), Fraser Papers Limited ("**FPL**") and Fraser N.H. LLC ("**FNHLLC**") (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**").

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. By further Orders of the Court, the Stay has been extended from time to time, with the most recent order of November 3, 2010 providing an extension of the Stay Period to February 28, 2011.

4. The Applicants prepared and filed a consolidated Plan of Compromise and Arrangement dated November 29, 2010 (the "**Original Plan**") with the Court on November 29, 2010. On December 3, 2010, the Court granted an order authorizing and directing the Applicants to file the Original Plan and to hold a meeting of the Applicants' creditors to consider and vote on the Original Plan (the "**Meeting Order**").

5. Pursuant to the Meeting Order, as amended by an order of the Court on December 17, 2010, a meeting of creditors was held on January 10, 2011 (the "**January Meeting**") to consider and vote on a resolution to approve the Original Plan. The requisite majority of creditors (by value) required to approve the Original Plan pursuant to the CCAA was not obtained and the Original Plan was therefore rejected. The principal objecting creditors were the hourly and salaried New Brunswick pension plans (collectively the "**NB Plans**"), who are represented by the Administrator of the NB Plans, Morneau Shepell Inc. (formerly Morneau Sobeco Inc.) ("**Morneau**"), and the Quebec hourly and salaried pension plans.

6. Since the January Meeting, the Applicants and their counsel have been engaged in extensive meetings and discussions with stakeholders and their advisors, including Morneau, the Communications, Energy and Paperworkers Union of Canada (the "**CEP**") and court-appointed representative counsel for the Committee Representing Unemployed and Former Employees. These discussions have resulted in Morneau, among others, agreeing to support the Amended Plan of Arrangement and Compromise

dated January 27, 2011 (the "**Amended Plan**"). Support for the Amended Plan is reflected in the agreement (the "**Support Agreement**") attached as Exhibit "B" to the January 28 McMillan Affidavit (as defined below), which confirms the support of Morneau, the Superintendent of Pensions for the Province of New Brunswick (the "**NB Superintendent**") and the New Brunswick Regional Council of Carpenters, Millwright and Allied Workers.

7. As a result of stakeholder discussions and the execution of the Support Agreement, the Applicants have prepared the Amended Plan, and have scheduled a motion returnable on February 1, 2011 seeking an order authorizing the Applicants to file the Amended Plan and to hold a further meeting of Affected Creditors (the "**February Meeting**") to consider and vote on the Amended Plan.

8. The purpose of this, the Monitor's Seventeenth Report, is to provide stakeholders and the Court with information pertaining to:

   a) the proposed Amended Plan;

   b) the consideration available for distribution to Affected Creditors;

   c) the February Meeting;

   d) the conditions precedent to Plan implementation;

   e) the alternatives to and consequences of rejecting the Amended Plan; and

   f) the Monitor's recommendations.

9. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. Dollars. Capitalized terms used herein and not otherwise defined are as defined in the Initial Order, the Claims Order, the affidavit of Glen McMillan sworn January 28, 2011 (the "**January 28 McMillan Affidavit**"), the Transaction Agreement or the Amended Plan, as applicable.

10. 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.

11. Some of the information referred to in this report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. 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. PROPOSED AMENDED PLAN

12. The Applicants have prepared and filed the Amended Plan in accordance with paragraph 3 of the Initial Order and paragraph 3 of the November 3, 2010 Order. As with the Original Plan, the purpose of the Amended Plan is to:

a) implement the terms of the Transaction Agreement (which, among other things, provides for the sale of the shares of the US Applicants and the Maine Lumber Mills to an affiliate of Brookfield Asset Management Inc., the Plan Sponsor);

b) effect a compromise and arrangement of all Affected Claims against the Applicants in a manner that provides consistent and equitable treatment among the Affected Creditors; and

c) allow for the orderly allocation of the Distribution Pool (as defined later in this report) to the Affected Creditors and the timely and cost efficient conclusion of the CCAA Proceedings and the US Bankruptcy Case.

13. The Monitor provided its comments on the Original Plan in its Fifteenth Report, a copy of which is attached hereto as Appendix A.

14. The Monitor has reviewed the Amended Plan and determined that the Amended Plan is substantially in the same form as the Original Plan filed with the Court on November 29, 2010, with the exception of the three principal changes detailed below:

a) Release of cash related to the Workers Compensation Obligations Letters of Credit

15. As detailed in the Fifteenth Report, there are $4.9 million of letters of credit ("**L/C**s") posted in support of the Workers Compensation Obligations, which liability is estimated by the Applicants to be less than $1.5 million. Pursuant to the Transaction Agreement, the Letters of Credit will continue as a Continuing Obligation and the Purchased Companies will assume responsibility for managing the Workers Compensation Obligations. Further, as the amount of the L/C's required to support the Workers Compensation Obligations is reduced, the Plan Sponsor will make a cash reimbursement payment in an amount equal to the amount by which the actual Workers Compensation Liability is less than the amount of the Letters of Credit to the Trusts (as explained in more detail below). However, the timing of when such reimbursement amounts will be released to the Trusts is uncertain.

16. As part of the Support Agreement that was executed in connection with the Amended Plan, the Plan Sponsor has agreed to prepay $500,000 of such reimbursement obligations on the Plan Implementation Date, which will be available to fund the Implementation Payment and otherwise be distributed to the Trusts. This amount will be offset against the first $500,000 of such reimbursement obligations released after the Plan Implementation Date.

b) U.S. Creditor Trust

17. In addition to the NB Hourly Trust, the NB Salaried Trust and the Creditor Trust, pursuant to the Amended Plan, for withholding tax reasons, a U.S. Creditor Trust will

also be formed to hold the *pro rata* share of the Distribution Pool (i.e. the Promissory Notes, Common Shares, the residual cash distributed on the Plan Implementation Date and any other future recoveries) for the benefit of Affected Creditors with Proven Distribution Claims that are residents of the United States (other than the NB Hourly Claim and the NB Salaried Claim). The residency of the beneficiaries of the Creditor Trust and U.S. Creditor Trust will be based on the addresses provided in the Proofs of Claim filed with the Monitor and/or the addresses provided to the Monitor by the Applicants, if an address was not provided in the corresponding Proofs of Claim.

18. The U.S. Creditor Trust amendments are not expected to have a material adverse impact on Affected Creditors or distributions to Affected Creditors under the Amended Plan.

c) Plan Releases

19. The Original Plan and Amended Plan provide for releases in favour of the Applicants, the DIP Lender, the Plan Sponsor, the Monitor, the Applicants' directors, officers and employees and agents and certain third parties (the "**Releases**").

20. The Releases provided in the Amended Plan have been clarified to specifically include claims in respect of the statutory liabilities of Directors and any person acting in an alleged fiduciary role in respect of the Applicants, whether acting as a director, officer, member of pension committee or acting in any other capacity in connection with the administration of the Terminated Pension Plans or any other pension or benefit plans or trusts of any of the Applicants.

21. In accordance with the Support Agreement, the Releases proposed in the Amended Plan exclude from the scope of the Release any claim against any actuarial firm or affiliated record keeper/third party administrator affiliated with such actuarial firm of the Terminated Pension Plans (defined as "Non-Released Parties" in the Amended Plan), solely for the several liability of such Non-Released Party's contribution to any loss or damages in respect of the Terminated Pension Plans (defined as "Non-Released Claims" in the Amended Plan). The Amended Plan also restricts the ability of any of

the Non-Released Parties to assert any claim against the Released Parties in respect of a Non-Released Claim, to reflect the releases previously granted to the Released Parties contractually, and pursuant to prior court Orders. The Monitor understands that these changes were required as part of the Applicants' negotiations with Morneau and the NB Superintendent, and that the Non-Released Parties have been served with the Applicants' motion materials and been given notice of the CCAA Proceedings.

B. CONSIDERATION AVAILABLE FOR DISTRIBUTION TO AFFECTED CREDITORS

The Applicants have prepared an updated cash flow forecast for the period to April 29, 2011 (the "**CFF**", attached as Exhibit C to the January 28 McMillan Affidavit) that reflects updated estimates of cash receipts and disbursements for that period and the implementation of the Amended Plan on February 14, 2011, which can be summarized as follows:

Summary of Cash Flow Forecast for the period to April 29, 2011

	$000
Estimated cash as at February 14, 2011	482
Estimated proceeds from sale of Maine Lumber Mills, incl. of working capital adjustment	13,429
Repayment of estimated DIP Loan balance as at February 14, 2011	(8,961)
Workers Compensation L/C Advance	500
Estimated gross cash amount available to fund Amended Plan payments and future costs	5,450
Estimated Implementation Payment	(580)
NB Hourly pension payment	(422)
Litigation amount	(100)
Estimated miscellaneous future receipts	215
Estimated outstanding and future costs to complete the CCAA proceedings	(2,978)
Estimated net cash available for distribution per CFF as of April 29, 2011	1,585
Discharge of secured claims not included in CFF	(100)
Estimated miscellaneous future receipts not received as of February 14, 2011	(215)
Estimated net cash available for distribution on February 14, 2011	**1,270**

22. The CFF indicates that up to $1.270 million of the net cash available on February 14, 2011**,** after repayment of the DIP Loan, the funding of the payments required under the Amended Plan and after reserving for outstanding future costs to complete, will be available for distribution to the four Trusts. The amount of the net available cash to be

settled to the Trusts on the Plan Implementation Date has still to be determined, but is expected to be in excess of $1 million.

23. The principal assumptions of note utilized in the CFF include the following:

a) The Amended Plan is accepted by the Affected Creditors and is implemented on February 14, 2011 and there are no significant variances from forecast;

b) The DIP Lender will be paid in full in cash on the Plan Implementation Date;

c) The total cost of the Implementation Payment (up to $500 to each Affected Creditor with a Proven Distribution Claim) is now forecast at approximately $580,000;

d) A payment of approximately Cdn$422,000 is made to the NB Hourly Plan in respect of current service cost contributions, arising from the decision of the Labour and Employment Board of New Brunswick dated January 7, 2011, and discussions between the Applicants and Morneau as part of the Amended Plan and the Support Agreement. The Superintendent of Pensions for New Brunswick (the "**NB Superintendent**") has advised the Applicants that this amount is due and payable as a result of that decision. The Applicants have agreed to remit payment of these current service costs on the Plan Implementation Date, and Morneau and the NB Superintendent have confirmed their support for the Amended Plan;

e) A payment of $100,000 to be held in trust by counsel for Morneau to reimburse any legal costs incurred by Morneau in connection with securing the dismissal of a claim by a Non-Released Party against a Released Party, which is in accordance with the terms of the Support Agreement. Any unspent amounts are to be reimbursed to the Trusts in accordance with the terms of the Support Agreement;

f) Outstanding but unpaid costs incurred to date and forecast to be incurred (in the period to May 31, 2011 in respect of administrative costs and professional fees associated with the ongoing expenses of the CCAA Proceedings) total approximately $3 million; and

g) A payment of approximately $200,000 in respect of a D&O long tail liability insurance policy.

24. There are several other potential recoveries of cash not included in the CFF that could increase the cash available for distribution to the Trusts by as much as an additional $1 to $2 million if they are received. These include: i) anticipated insurance premium refunds; ii) cash amounts currently held in trust that are in excess of certain long term disability obligations; iii) the proceeds of sale of a fishing camp in Quebec; and (iv) sales tax refunds. These amounts would also be in addition to any reimbursement payment made by the Plan Sponsor in respect of the Workers Compensation Obligations L/C's.

25. The Amended Plan provides for the distribution of the Promissory Notes and Common Shares received from Twin Rivers Paper Company Inc. ("**Twin Rivers**") as consideration for the purchase of the speciality paper business, as well as any of the Applicants' remaining cash on hand and any future recoveries (collectively the "**Distribution Pool**") to the Trusts.

26. As the Applicants will not be carrying on business after the Plan Implementation Date and as the Applicants will have no other assets with which to satisfy the claims of creditors, the Distribution Pool is fixed and not subject to increase, other than through the continuing efforts of the Applicants to obtain the best value for any remaining assets and any increases in value of the Common Shares above their notional value.

27. While the quantum of the unresolved/disputed claims has decreased substantially since the Fifteenth Report, it remains very difficult to estimate the eventual and actual recovery of the Affected Creditors pursuant to the Amended Plan due to several variables, including:

a) The uncertainty surrounding the ultimate realizable value of the Promissory Notes and Common Shares as their value is entirely dependent on Twin Rivers' future financial performance;

b) As detailed in the Fifteenth Report, the Promissory Notes and Common Shares cannot be sold to any third party without Twin Rivers' consent. In addition, the Promissory Notes do not mature until 2018 and there is no mechanism for the Applicants to be able to monetize or realize on the Common Shares without Twin Rivers' and/or Brookfield's involvement/consent (e.g. through a buy-back of the shares by Twin Rivers, a sale of Twin Rivers to a third party or a public offering);

c) The quantum of cash ultimately reimbursed by the Plan Sponsor in respect of the L/Cs that support the Workers Compensation Obligations;

d) The cash ultimately received in respect of the other potential recoveries; and

e) The quantum of unresolved/disputed claims.

28. Notwithstanding the foregoing, <u>for illustrative purposes only</u>, the Monitor has provided an estimated recovery percentage for Affected Creditors with Proven Distribution Claims based on the Amended Plan and the following two scenarios:

I. Scenario 1 - Full par value for the Promissory Notes is realized, coupled with the Common Shares being sold for their April 28, 2010 notional value (i.e. $10 per share). Total claims are based on the Allowed Claims coupled with an estimate of the lower end of the likely allowed amount of unresolved claims, totalling $16.2 million; and

II. Scenario 2 - Full par value for the Promissory Notes is realized, coupled with the Common Shares being sold for their April 28, 2010 notional value (i.e. $10 per share). Total claims are based on the Allowed Claims and the full amount of the unresolved claims of $38.9 million.

Illustrative Recovery Analysis		
	Scenario 1	**Scenario 2**
Potential Values Realized		
Promissory Notes	$ 44,468	$ 44,468
Common Shares	24,019	24,019
Other recoveries (a)	TBD	TBD
Cash Transferred to the Trusts on Plan Implementation (b)	1,000	1,000
Total Potential Recoveries - undiscounted	$ 69,487	$ 70,019
Potential Claims Allowed		
Allowed Claims to Date	$ 333,228	$ 333,228
Potential Additional Unresolved Claims Allowed	16,200	38,952
Total Potential Claims Allowed	$ 349,428	$ 372,180
Percentage Recovery for Affected Creditors	**20%**	**19%**

(a) The amount is still to be determined re L/C's and other potential recoveries
(b) The cash in the Trusts that is available for distribution net of Trust Administration Expenses.

29. The Illustrative Recovery range of 19% to 20% is at the higher end of the range outlined in the Fifteenth Report, as a result of a small increase in the quantum of Promissory Notes and a significant reduction in the estimates of potential additional claims to be allowed in respect of Unresolved and Disputed Claims.

30. Additional matters that may affect the recovery for Affected Creditors include the following:

    a) Any significant cash distributions to Affected Creditors from the Trusts will only occur upon realization of the Promissory Notes and Common Shares held in the Trusts. The Promissory Notes do not mature until April 2018. Therefore, unless the Promissory Notes are repaid prior to the maturity date, any distribution to Affected Creditors with Allowed Claims will not occur until after the maturity of the Promissory Notes. Being equity, the Common Shares have no fixed date of repayment and the potential timing and quantum of any realization from these shares is uncertain and may, therefore, be significantly later than 2018. The recoveries in the above table have been presented on an undiscounted basis. As such, the net present value of the illustrated recoveries

will be lower than shown, depending on the discounting period and the discount rate used; and

b) The creditor recovery percentages ignore any Implementation Payments.

C. THE FEBRUARY MEETING

31. The Applicants have a total of 1,136 Affected Creditors with Proven Voting Claims and 4 creditors with Unresolved Claims. The Monitor has email addresses for 894 of these Affected Creditors with Proven Voting Claims and creditors holding Unresolved Claims are included on the Service List. 306 Affected Creditors voted at the January Meeting, and the Monitor has email addresses for 230 of these Affected Creditors and regular mailing/courier addresses for the remaining 76. In addition, since January 10, 2011, 18 additional proxies have been received, for which the Monitor has 5 email addresses.

32. The proposed Supplemental Meeting Order requires the Monitor to send by email to all Affected Creditors for whom the Monitor has an email address the following materials by 10 am on February 2, 2011:

a) The Form of Proxy in English and French;

b) The New Notice to Creditors in English and French; and

c) A link to the Monitor's Website to allow such Affected Creditors to access and obtain a copy of the Amended Plan and copies of all other February Meeting Materials.

33. The proposed Supplemental Meeting Order requires the Monitor to send the February Meeting Materials by courier to only those Affected Creditors that voted, in person or by proxy, at the January Meeting and who have not provided an email address or who have elected to receive the Meeting Materials by mail. These February Meeting Materials must be sent by 10 am on February 2, 2011.

34. The February Meeting Materials will also be available on the Monitor's Website and will be made available by the Monitor to anyone who requests same.

35. The Supplemental Meeting Order provides that the proxies of Affected Creditors submitted in respect of the January Meeting will still be valid in respect of the February Meeting, and Affected Creditors do not need to submit new proxies, unless they wish to change their vote or appoint a new proxy.

36. The Applicants have advised the Monitor that since the Amended Plan is substantially the same as the Original Plan distributed to Affected Creditors in December 2010, the vast majority of creditors by value voted at the January Meeting, and in the interest of efficiency and minimizing costs, the proposed Supplemental Meeting Order will not require the Monitor to deliver the February Meeting Materials to Affected Creditors that did not vote in person or by proxy at the January Meeting and who did not provide an email address to the Monitor.

37. The Applicants' propose that the February Meeting be held at the offices of Thornton Grout Finnigan LLP (100 Wellington Street West, Suite 3200, Toronto, M5K 1K7) at 10 am Eastern Standard Time on February 8, 2011. If the Amended Plan is approved by the required majority of Affected Creditors, the sanction of the Amended Plan by the Canadian and U.S. Courts will be sought on February 10, 2011 and February 11, 2011, respectively.

38. Provided the Amended Plan is sanctioned by the Canadian and U.S. Courts, the Applicants anticipate the Plan Implementation Date to be on or about February 14, 2011, subject to the Plan Sponsor's willingness to waive the requirement that the approval orders are Final Orders.

39. The short timeline advanced by the Applicants between the delivery of Amended Plan materials to creditors to the February Meeting is limited, and is being driven by the significant costs associated with the ongoing expenses of the CCAA Proceedings and the requirement of the Plan Sponsor that the Plan Implementation Date be no later than

February 15, 2011, which is the outside date set out in the Transaction Agreement for completion of the transaction.

D. THE CONDITIONS PRECEDENT TO PLAN IMPLEMENTATION

40. The implementation of the Amended Plan is conditional upon the satisfaction or waiver by the Applicants, Plan Sponsor, and the DIP Lender, as applicable, of certain conditions prior to the Plan Implementation Date, which include the following:

a) The Amended Plan being approved by the Required Majority of the Affected Creditors at the February Meeting;

b) The Amended Plan terms being acceptable to the Plan Sponsor;

c) The Sanction Order and Vesting Order being issued by the Canadian Court on or before February 10, 2011, unless otherwise agreed by the Applicants and the Monitor;

d) The Sanction Recognition Order and U.S. Sale Order being issued by the U.S. Court on or before February 11, 2011, unless otherwise agreed by the Applicants and the Monitor;

e) All applicable appeal periods in respect of the Sanction Order, the Vesting Order, the Sanction Recognition Order and the U.S. Sale Order having expired;

f) Repayment of all amounts secured under the DIP Lender's Charge;

g) Resolution of all Secured Claims on terms acceptable to the Applicants and the Monitor or pursuant to an order of the Court; and

h) The establishment and funding of the Trusts.

E. THE ALTERNATIVES TO AND CONSEQUENCES OF REJECTING THE PLAN

41. In the event the Amended Plan is not approved, the Monitor understands that the DIP Lender will not support any further costs to be incurred in developing an alternative

plan of compromise and arrangement. The Monitor considers it highly likely that the net recoveries in this alternate scenario to the Affected Creditors would be significantly lower than in the Amended Plan because:

a) The $3 million Brookfield Premium would not likely be received (as described in the Fifteenth Report);

b) The DIP Lender may retain some or all of the Promissory Notes and Common Shares, pending full repayment of the DIP Loan;

c) Any future insolvency proceedings and/or restructuring plans would not likely be on a substantively consolidated basis, which may result in expensive and protracted litigation involving the individual Applicants with respect to allocation of proceeds, secured debt, unsecured debt, costs and other matters; and

d) Significant additional professional fees would be incurred in completing the sale/realization of the remaining assets and finalizing these matters.

F. MONITOR'S RECOMMENDATIONS

42. In the Fifteenth Report, the Monitor provided a comprehensive commentary on the Original Plan, the matters for creditors to consider in deciding how to vote, and concluded by recommending that Affected Creditors vote in favour of the Original Plan. As the Amended Plan is substantially in the same form as the Original Plan, and the issues impacting the Affected Creditors have not changed, the Monitor still considers that the Amended Plan is fair and reasonable in the circumstances and provides the potential for a higher recovery for Affected Creditors than is otherwise available. Therefore, the Monitor recommends that the Affected Creditors vote in favour of the Amended Plan.

43. While the notice period for the February Meeting is limited, the Applicants and the Monitor are taking steps to ensure that notice of the February Meeting is being provided to creditors, which includes notice by email or courier to all Affected

Creditors who voted on the Original Plan, and notice by email to the majority of Affected Creditors by value and number, as well as posting of the February Meeting Materials on the Monitor's website.

44. In addition, it should be noted that the Applicants' major Affected Creditors have provided significant input on the amendments to the Original Plan now embodied in the Amended Plan, the Amended Plan is substantially in the same form as the Original Plan, and the Applicants have limited cash resources. Based on the foregoing, the Monitor considers the process to reconvene and vote on the Amended Plan at the February Meeting is reasonable in the circumstances and, therefore, supports the Applicants' request for the Supplemental Meeting Order.

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

Dated at Toronto, Ontario this 31st day of January, 2011.

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

John McKenna
Senior Vice President

APPENDIX A

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 FIFTEENTH REPORT TO THE COURT

December 2, 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 and FRASER N.H. LLC

Applicants

FIFTEENTH REPORT TO THE COURT ON THE APPLICANTS' REQUEST FOR A MEETING ORDER IN CONNECTION WITH A PLAN OF COMPROMISE AND ARRANGEMENT SUBMITTED BY PRICEWATERHOUSECOOPERS INC. IN ITS CAPACITY AS MONITOR OF THE APPLICANTS

INTRODUCTION

1. On June 18, 2009, Fraser Papers Inc. ("**FPI**"), FPS Canada Inc. ("**FPSC**"), Fraser Papers Holdings Inc. ("**Fraser Holdings**"), Fraser Timber Limited ("**FTL**"), Fraser Papers Limited ("**FPL**") and Fraser N.H. LLC ("**FNHLLC**") (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**").

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. By further Orders of the Court, the Stay has been extended from time to time, with the most recent order of November 3, 2010 providing an extension of the Stay Period to February 28, 2011.

4. The Applicants have now prepared a consolidated Plan of Compromise and Arrangement dated November 29, 2010 (the "**Plan**") and have scheduled a motion returnable on December 3, 2010 seeking an Order of the Court authorizing and directing the Applicants to file the Plan and to hold a Meeting of the Applicants' Creditors to consider and vote on the Plan (the "**Meeting Order**").

5. The purpose of this, the Monitor's Fifteenth Report, is to provide stakeholders and the Court with information pertaining to:

   a) The principal matters outstanding in the Applicants' restructuring;

   b) The Brookfield Agreement;

   c) The proposed plan of arrangement;

   d) The creditors meeting;

   e) The status of the Claims Process;

   f) The anticipated recovery for Affected Creditors;

   g) The conditions precedent to Plan Implementation;

   h) The alternatives to and consequences of rejecting the Plan; and

i) The Monitor's recommendations.

6. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. Dollars. Capitalized terms used herein and not otherwise defined are as defined in the Initial Order, the Claims Order, the affidavit of Glen McMillan sworn November 29, 2010 (the "**November McMillan Affidavit**"), the Brookfield Agreement (as defined below), the M&M APA (as defined below), the Counsel RB APA (as defined below), or the Plan, as applicable.

7. 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.

8. Some of the information referred to in this report consists of forecast and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. Future-oriented financial information referred to in this report was prepared by the Applicants based on management's estimates and assumptions. Readers are cautioned that, since these projections are based upon assumptions about future events and conditions, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

A. PRINCIPAL MATTERS OUTSTANDING IN THE APPLICANTS' RESTRUCTURING

9. There are a number of assets that have not yet been realized upon by the Applicants, and their current status is set out below.

Sale of the Gorham Mill

10. As detailed in the Monitor's Fourteenth Report, the Applicants and M & M Contracting and Consulting LLC ("**M & M**") signed the Gorham Mill asset purchase agreement

(the "**M&M APA**") on November 3, 2010 and scheduled a hearing seeking Court approval of the M&M APA on November 19, 2010.

11. After the M&M APA was signed, a third party, Counsel RB Capital LLC ("**Counsel RB**") expressed an interest in potentially acquiring the Gorham Mill. As a result of non-solicitation restrictions in the M&M APA, the Applicants were unable to discuss any matters with Counsel RB or provide it with any information. The Monitor had a limited number of high-level discussions with Counsel RB regarding the Gorham Mill, but as a result of the non-solicitation restrictions contained in the M&M APA, the Monitor did not provide this party with any information and directed them to websites where publicly available information was available on the Gorham Mill.

12. On November 19, 2010, just prior to the Court hearing to approve the M&M APA, the Monitor received an unsolicited asset purchase agreement from Counsel RB (the "**Preliminary Counsel RB APA**") offering a higher price as compared to M & M's price for the Gorham Mill. However, the Preliminary Counsel RB APA was subject to a number of conditions, and included broad circumstances in which the deposit paid by Counsel RB would be refundable.

13. As a result of the fact that no stakeholders had received adequate time to consider the Preliminary Counsel RB APA and the conditionality of the Preliminary Counsel RB APA, the November 19, 2010 hearing was adjourned to 7 am on November 22, 2010, to enable the Monitor to facilitate the dissemination of requested information, discuss certain terms contained in the Preliminary Counsel RB APA and to provide Counsel RB with an opportunity to remove the conditions.

14. Counsel RB was unable to satisfy or waive the outstanding conditions in the Preliminary Counsel RB APA and, as a result, withdrew the Preliminary Counsel RB APA. However, Counsel RB offered to act as a "backup bidder" in the event the M&M APA did not close as scheduled on November 30, 2010.

15. At a Court hearing on November 22, 2010, the Court approved the M & M APA and, as a result of the Applicants having received M&M's consent to enter into a backup bid

with Counsel RB, approved the Applicants and the Monitor negotiating the terms of a backup bid with Counsel RB.

16. On November 26, 2010, M & M verbally advised the Applicants that it may not conclude the M&M APA as a result of a number of alleged material adverse events. This was unequivocally confirmed on November 29, 2010 by a letter to the Applicants from M & M's counsel.

17. In the meantime, the Applicants, in consultation with the Monitor, had continued to negotiate the terms of a back-up bid with Counsel RB and, as a result, the Applicants and Counsel RB signed a new asset purchase agreement (the "**Counsel RB APA**") on November 27, 2010. The Counsel RB APA is similar to the M&M APA (except for certain of Counsel RB conditions, as have been agreed between the Applicants, in consultation with the Monitor, and Counsel RB). In addition, Counsel RB provided a refundable deposit in the amount of $200,000 on November 29, 2010, which will be applied to the payment of the purchase price at the time of closing. The deposit will be returned to Counsel RB if two conditions in its favour (the "**Counsel RB Conditions**") are not satisfied by 9:00 pm on December 1, 2010, or if thereafter the Counsel RB APA is terminated by mutual agreement of the parties, or as a result of the Applicants' failing to comply with, for example, applicable laws.

Outstanding Conditions Precedent

18. There are two conditions precedent in respect of the Counsel RB APA, which are summarized below (the "**Counsel RB Conditions**"):

    a) *Memorandum of Agreement*. On or prior to 9:00 p.m. EST on December 1, 2010 or such later date as the Applicants and Counsel RB may agree, Counsel RB shall have entered into a Memorandum of Agreement with the United Steelworkers and its Local Union 4-75 relating to entering into a collective bargaining agreement, which shall include full releases in favour of the Applicants from any and all obligations under the old collective bargaining agreement satisfactory to the Applicants; and

b) *Covenant Not to Sue.* On or prior to 9:00 p.m. EST on December 1, 2010 or such later date as the Applicants and Counsel RB may agree, Counsel RB will receive, for itself and its successors and assigns, a binding and enforceable covenant not to sue from the State of New Hampshire in connection with, relating to or arising from (i) any environmental liabilities arising prior to the closing or (ii) any cause, matter or thing or action or omission existing, occurring or arising prior to the closing, all in form and substance satisfactory to Counsel RB. Such covenant not to sue is to survive indefinitely.

19. The Monitor understands that Counsel RB visited the Gorham mill on December 1, 2010 to conduct due diligence. The Applicants have been advised by Counsel RB that, as a result of its due diligence, the two outstanding conditions under the Counsel RB APA have been satisfied and/or waived and that Counsel RB is prepared to proceed with closing the transaction contemplated by the Counsel RB APA. The Monitor understands that the closing date of the Counsel RB APA is expected to be on or about December 8, 2010 and that that Applicants will be seeking the Court's approval of the Counsel RB APA at the motion returnable December 3, 2010.

20. As described in paragraph 27 below, the Brookfield Agreement includes the acquisition of the shares of FNHLLC that owns the Gorham Mill, in the event that the Gorham Mill is not sold to a third party. The Brookfield Agreement provides for a reduction in the purchase price to be paid by Brookfield in an amount equivalent to the lesser of the net proceeds of sale or approximately $2.7 million, if the Gorham Mill is sold to a third party.

Sale of the Maine Lumber Mills

21. At a Court hearing on July 7, 2010, the Court approved the sales process under which the Applicants would sell its two lumber mills in Maine (the "**Maine Lumber Mills**"). The sale process was conducted by the Applicants with oversight by the Monitor.

22. The Applicants contacted approximately 61 bidders potentially interested in purchasing the Maine Lumber Mills, resulting in 27 potential bidders signing confidentiality agreements and being given access to the data room.

23. The Applicants received five non-binding letters of intent from potential bidders and, after review of same in conjunction with the Monitor, shortlisted three parties based on the highest indicative purchase price offered (the "**Shortlisted Parties**"), to enable them to conduct additional due diligence and work towards entering into a definitive asset purchase agreement ("**APA**"). In this respect, the Applicants provided a template APA to each of the Shortlisted Parties and advised them that offers substantially in the form of the APA were required to be submitted by September 30, 2010.

24. Once the Shortlisted Parties had conducted additional due diligence, the Applicants received APAs from two parties. These APAs were then reviewed and negotiated by the Applicants in consultation with the Monitor.

25. Prior to an APA being finalized with one of the Shortlisted Parties, the Applicants received the Brookfield Proposal (as defined below).

The Remaining Residual Assets

26. The Applicants have advised the Monitor that the Applicants' remaining assets to be realized upon include the following:

    a) FPL holds a preferred equity interest with a book value of $13 million in Katahdin Paper Company LLC ("**KPC**"), a wholly owned subsidiary of Brookfield, which was purchased in 2003 (the "**KPC Shares**"). KPC is not part of the Applicants' CCAA Proceedings. KPC owns an older mill that manufactures directory paper (e.g. used in white and yellow pages phone books) and newsprint (used in newspapers). As a result of the significant reduction in demand for directories and newspapers over the past several years, KPC has generated substantial operating losses for the past six years and its future is uncertain. These operating losses have largely been funded by secured loans

from Brookfield and, as a result, KPC has very substantial amounts of secured debt owing to Brookfield. KPC's aggregate secured and unsecured liabilities also significantly exceed the book value of its assets.. Management ascribes no value to the KPC Shares and, during 2009, the Applicants recorded a provision in its audited financial statements equal to the full carrying value of its investment.

The KPC Shares have not been marketed by the Applicants during the CCAA Proceedings. However, the Monitor considers that, based on the six year period of losses, the continued poor prospects for directory paper and newsprint, coupled with the very substantial amounts of secured debt, it is highly unlikely that any material value would be realized from a sale of KPC's assets to provide significant value for the KPC Shares.

In addition, there are restrictions on the transferability of the KPC Shares, which limit their marketability to any party except an affiliate of Brookfield.

The Brookfield Proposal includes the acquisition of the KPC Shares.

b) The Applicants have accumulated tax losses totalling in excess of CAD$100 million in Canada (the "**Canadian Tax Losses**") and in excess of $330 million in the U.S. (the "**US Tax Losses**").

The Canadian Tax Losses are expected to be reduced by an amount yet to be determined in respect of debt forgiveness as a result of the Plan. The Monitor understands that the remaining available Canadian Tax Losses, if any, would only be of significant value to Brookfield, as Revenue Canada's acquisition of control rules would render them virtually worthless to any purchaser other than Brookfield, given that all of the existing operations of FPI have now been sold. The Monitor notes that the shares of FPI are not being acquired as part of the Brookfield Proposal.

The US Tax Losses are also expected to be reduced by an amount yet to be determined in respect of debt forgiveness as a result of the Plan. The Monitor understands that the remaining available US Tax Losses are unlikely to have significant value to a third party, as the change in ownership provisions under the US Tax Code mean that the tax losses that can be utilized after a change in control are restricted to a very small percentage of the price paid by the purchaser (i.e. the vast majority of the Applicants US Tax Losses cannot be utilized by a third party purchaser). However, as Brookfield indirectly owns a majority of the equity of FPI, which in turn owns the US Applicants that have accumulated these tax losses, the Monitor understands that it is likely that there would be no change in ownership restrictions that would restrict Brookfield's usage of the US Tax Losses. The Brookfield Proposal makes the US Tax Losses available to Brookfield.

c) FPI has a CDN$400,000 receivable related to expenditures made in respect of the Canadian government's 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 Paper Company Inc. ("**Twin Rivers**") on closing of the SPB Transaction (as defined in the Monitor's Ninth Report) and approximately CDN$400,000 was claimed in respect of projects that are eligible for reimbursement under the PPGTP. The Monitor understands that $302,000 of this receivable has been received by Twin Rivers and will be remitted to the Applicants shortly and the balance of these monies is expected to be received by FPI in January 2011.

d) FTL owns the minerals rights pertaining to certain Maine timberlands that it sold in 2005 (the "**Mineral Rights**"). The Monitor understands that at no time have the Applicants received any indication from any party that these Mineral Rights have any value and the Applicants have advised the Monitor that they do not ascribe any value to the Mineral Rights. As a result, the Applicants have not marketed these Mineral Rights. These rights are owned by FTL which is being purchased as part of the Brookfield Proposal.

e) The Monitor understands that FPI 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. This asset is owned by FPI and is therefore not being acquired pursuant to the Brookfield Proposal.

B. THE BROOKFIELD AGREEMENT

27. On October 15, 2010, the Applicants were approached by Brookfield Asset Management Inc. ("**Brookfield**") with a proposal to sponsor a Plan in conjunction with the acquisition of the shares and certain assets owned by the US Applicants.

28. As reported in the Monitor's Thirteenth Report, the Monitor, the Applicants and their counsel met with Brookfield on October 20, 2010, at which time Brookfield provided more details around its proposal, including that it was interested in acquiring the shares of all of the US Applicants (namely Fraser Holdings, FPL, FTL and FNHLLC) coupled with sponsoring a Plan of Arrangement for all of the Applicants (the "**Brookfield Proposal**").

29. By acquiring the FTL shares, the Brookfield Proposal results in the assets and operations of the Maine Lumber Mills being indirectly acquired by Brookfield. If the Gorham Mill is not sold to a third party, the assets and operations of the Gorham Mill, will also be indirectly acquired by Brookfield. The Brookfield Proposal contemplates that any assets associated with the acquired mills which are owned by any other Applicant would be transferred to the appropriate mill entity on or before closing.

30. As Brookfield is non-arms length to the Applicants, and to avoid any perceived conflicts of interest and to ensure the greatest degree of impartiality for the Applicants' stakeholders, it was agreed that the Monitor would take an active role in respect of the remaining aspects of the sale process for the Maine Lumber Mills and advancing the Brookfield Proposal.

31. As a result, the Monitor advised all potential purchasers of the Maine Lumber Mills that all APA's were to be sent to the Monitor, rather than to the Applicants, and the Monitor was to be on all calls between interested parties and the Applicants. In addition, the Applicants confirmed to the Monitor that no information on any offers received from third parties would be shared by the Applicants with Brookfield until negotiations regarding the Brookfield Proposal were completed.

32. The Monitor continued to advance matters with the parties that had submitted APA's for the Maine Lumber Mills, with a view to exploring all alternatives for a sale of the Maine Lumber Mills. These parties were advised of the existence of the Brookfield Proposal and that it included the proposed acquisition of the Maine Lumber Mills, although no indication of value was disclosed.

33. As noted above, an acceptable APA for the Maine Lumber Mills was received from one third party in late October, which had a deadline for acceptance of November 5, 2010. It was extended by mutual agreement until November 19, 2010, to permit time for the Brookfield Proposal to be received and negotiated.

34. A more detailed proposal was received from Brookfield on November 2, 2010. Over the following two weeks, several meetings and calls were held between Brookfield and the Monitor and/or its counsel, where issues and concerns with the Brookfield Proposal were discussed.

35. On November 16, 2010, the Monitor received a detailed transaction agreement from Brookfield with respect to the Brookfield Proposal (the "**Brookfield Agreement**"), which included a number of improvements from the original Brookfield Proposal. The Brookfield Agreement was analysed by the Monitor and various concerns were again raised by the Monitor with Brookfield.

36. Following additional significant negotiations and discussions among Brookfield and the Applicants, in consultation with the Monitor, in the period leading up to November 25, 2010, several revised drafts of the Brookfield Agreement were received and further advanced and negotiated. The Monitor requested on several occasions that Brookfield

increase the cash purchase price above the $15 million offered. However, while several other improvements were made to the Brookfield Agreement, Brookfield did not increase the cash purchase price. Ultimately, the Applicants, in consultation with the Monitor, determined that the revised Brookfield Agreement was superior to the other offers received and in the best interest of the creditors. As a result, on November 26, 2010, the Applicants and Brookfield signed the Brookfield Agreement subject to Court approval and finalizing the schedules.

Summary of the Brookfield Agreement

37. Set out below is a summary of the principal terms and conditions of the Brookfield Agreement, a copy of which is attached as Schedule "B" to the McMillan November Affidavit. All capitalized terms used in this section but not otherwise defined have the meanings given to them in the Brookfield Agreement.

38. Under the Brookfield Agreement, Brookfield will acquire all of the shares of Fraser Holdings through which Brookfield will indirectly acquire the following, unless designated as Excluded Property:

a) the common shares of all the remaining US Applicants (namely FPL, FTL and FNHLLC, if the Gorham Mill is not sold to a third party purchaser, as described above);

b) the acquired subsidiaries are to hold all assets associated with the Maine Lumber Mills and unless the Gorham Mill is sold to a third party, all assets associated with the Gorham Mill, which generally include accounts receivable, prepaid expenses, inventory, fixed assets (including land, buildings and equipment), intellectual property, contracts, permits, and assigned licences that are used in each of those operations; and

c) the other assets and all other direct and indirect businesses, property, and assets of the US Applicants, which the Monitor understands are principally the KPC Shares, the US Tax Losses and the Mineral Rights.

39. Subject to the net working capital adjustment described in paragraph 45 below, the effective gross consideration of the Brookfield Transaction is currently estimated to be approximately $19.9 million ($20.1 million if the Gorham Mill is acquired by Brookfield), and is comprised of:

    a) cash in the amount of $15,000,000 (the "**Cash Purchase Price**") less the net cash proceeds received on a sale to a third party of the Gorham Mill, up to a maximum of $2,695,722. It is important to note that if the Gorham Mill is sold to a third party, while the Cash Purchase Price will be reduced by the net proceeds received, the DIP Loan will be reduced by the exact same amount, and therefore there is no effective difference in the combined net cash received as a result of the sale of the Gorham Mill, to either Brookfield or a third party and the sale of the Maine Lumber Mills to Brookfield; and

    b) the survival of the debts and liabilities of the Purchased Companies specified as Continuing Obligations (as as detailed in paragraph 41 below), estimated to be approximately $4.9 million for FTL, FPL and Fraser Holdings and approximately $0.2 million for the Gorham Mill.

40. The principal Excluded Property includes:

    a) the Gorham Mill and the shares of FNHLLC, if prior to closing, the Applicants complete the sale of the Gorham Mill to an arms-length party; and

    b) any assets or other property and assets of the applicable US Applicants that Brookfield designated as excluded property on or before closing.

41. The Monitor understands that upon the closing, certain debts and liabilities of the Purchased Companies will survive the closing of the transaction as Continuing Obligations of the Purchased Companies, which include:

    a) Specified, Ordinary Course accounts payable and accrued payables outstanding at the date of closing relating solely to the Purchased Companies;

b) accrued payroll and vacation pay obligations for Continuing Employees and, to the extent that the Gorham Mill is acquired, the accrued payroll and vacation pay obligations of the Gorham Mill's Unionized Employees;

c) liabilities arising from asset retirement obligations of the Maine Lumber Mills;

d) liabilities arising from asset retirement obligations of the Gorham Mill, to the extent that the Gorham Mill is acquired;

e) liabilities of the Purchased Companies arising from Workers' Compensation Obligations up to a maximum aggregate amount, equal to the aggregate amount payable under the Brookfield letters of credit at the Plan Implementation Date; and

f) liabilities arising from landfill maintenance obligations of an old closed landfill located in Moraine, Ohio.

42. The Purchased Companies, on closing, are to have no other liabilities including none of the following:

a) any pre-filing claims of trade creditors of the Applicants, all of which are to be dealt with under the Plan;

b) any liabilities in respect of Excluded Property;

c) liabilities incurred pursuant to the Applicants' CCAA and Chapter 15 proceedings;

d) liabilities with respect to any current or former employees of the Purchased Companies that are neither Continuing Employees nor Unionized Employees or any liabilities in respect of other current or former employees of the Applicants; and

e) liabilities with respect to the Workers Compensation Obligations if, on or before closing, the Applicants implement Alternative Letter of Credit Arrangements.

43. One of the Applicants' larger remaining liabilities is the aforementioned Workers Compensation Obligations that are owed in respect of workers compensation claims incurred by US employees but not yet reported or claims that are still outstanding. In this respect, the Applicants have advised the Monitor that the current estimated workers compensation liability is less than $1.5 million, whereas the face amount of the letters of credit ("**L/Cs**") currently posted in favour of the insurers in respect of the deductibles on the applicable workers compensation liability insurance policies is approximately $5.2 million. The Applicants have advised the Monitor that they have requested that the insurance companies reduce the required amount of the L/Cs, or buy out the remaining liability pursuant to the policies. To date, the insurance companies have only offered a very limited reduction in the L/Cs and have not advanced any settlement or release of any L/Cs.

44. The Brookfield Agreement provides that on the Plan Implementation Date, a portion of the Cash Purchase Price will be used to fully cash collateralize the outstanding L/Cs at that date (to enable the DIP Loan to be fully repaid and the DIP Charge released) and Brookfield will assume responsibility for actively managing the remaining outstanding claims, including making payments in respect of claims out of the funds that have been provided as cash collateral. The Monitor understands that, over time, as the remaining employee workers compensation claims are discharged, the L/C requirement will be reduced by the insurance companies. As the L/C requirement is reduced, any funds in the cash collateralization account that are in excess of the amount of the L/Cs outstanding, will be released by Brookfield for distribution to the Trusts. The terms and conditions under which Brookfield will administer the claims and the release of the L/Cs will be finalized under an agreement to be entered into among the Applicants, Brookfield, the DIP Lender and the Monitor on or before the closing of the transactions contemplated by the Brookfield Agreement.

45. Pursuant to the Brookfield Agreement, the Purchase Price is subject to a net working capital adjustment in respect of the Maine Lumber Mills. To the extent the net working capital under the final closing balance sheet is less or more than the targeted net working capital of approximately $3.8 million, the cash component of the Purchase

Price will be adjusted by a corresponding amount. This adjustment is not expected to impact the net cash available for distribution to Affected Creditors, as any net working capital adjustment will be offset by a corresponding decrease/increase in the DIP Loan balance.

46. Based on the foregoing, the net cash proceeds available to creditors from the Brookfield Agreement, before adjustment for the Net Working Capital Adjustment and any reduction in the L/Cs and, assuming the inclusion of the Gorham Mill, is approximately $15.0 million.

47. The Brookfield Agreement requires that the foregoing would be implemented through a plan of arrangement and sets an outside date for implementation of the Plan of February 15, 2011.

Monitor's Analysis of the Brookfield Agreement

48. The Monitor, in conjunction with the Applicants, has compared the APA's received from third parties to the Brookfield Agreement and has determined that the Brookfield Agreement provides a higher overall value and benefit to the stakeholders for the following reasons:

a) The Cash Purchase Price of $15 million exceeds the net cash consideration offered by the potential third party purchasers of the Gorham Mill and the Maine Lumber Mills by approximately $3 million (the "**Brookfield Premium**"). None of the potential third party purchasers of either the Gorham Mill or the Maine Lumber Mills expressed any interest in acquiring the shares of the US Applicants, which infers that no other party believes that they could utilize the US Tax Losses. Moreover, the Monitor is of the view that the processes followed in obtaining the third party offers for the Gorham Mill and the Maine Lumber Mills were appropriate in the circumstances and, accordingly, these third party offers received represent fair value for these assets;

b) The Brookfield Agreement provides a timely and efficient way of completing the CCAA and Chapter 15 proceedings and distributing the proceeds to the creditors. As set out in more detail below, the Brookfield Premium and the continuation of the Continuing Obligations results in better prospects for the Promissory Notes and Common Shares to be distributed in their entirety to the Trusts, without some or all of these assets being subject to a claim by the DIP Lender if there is a shortfall of cash to repay the DIP Loan in full;

c) The Brookfield Agreement provides an efficient way to permit the remaining Workers Compensation Obligations to be "run-off" which, in the absence of accommodations from the insurance companies, will result in the L/Cs being required to be posted for several more years and finding a third party to administer these claims. The Brookfield Agreement also permits creditors to benefit, over time, from any excess cash collateralization posted in respect of the Workers Compensation Obligations;

d) The Brookfield Agreement provides that the Ohio landfill maintenance obligation will be assumed, which reduces the financial burden on the Applicants;

e) The Brookfield Agreement provides a higher likelihood that the DIP loan balance will be repaid in full and there will be cash consideration available to unsecured creditors;

f) The Brookfield Agreement provides a "back stop" to any uncertainty regarding the completion of a sale of the Gorham Mill to a third party; and

g) The Brookfield Agreement provides for sponsorship of the Plan and facilitates timely liquidation of the Applicants' remaining assets.

49. The Monitor notes that the Brookfield Agreement provides Brookfield with access to the US Tax Losses, which could have material value to Brookfield.

50. Based on the foregoing, the Monitor considers the Brookfield Agreement is the best transaction in the circumstances and maximizes recovery and value for the Applicants' stakeholders versus the other alternatives available to the Applicants. The terms of the Brookfield Agreement provide finality and certainty for the Applicants' stakeholders by providing a clear path to emergence from the CCAA and Chapter 15 Proceedings in a timely, cost efficient and effective manner.

C. PROPOSED PLAN OF ARRANGEMENT

51. The Applicants have prepared and filed the Plan in accordance with the authorization provided in paragraph 3 of the Initial Order and paragraph 3 of the November 3, 2010 Order. The purpose of the Plan is to:

a) implement the terms of the Brookfield Agreement;

b) effect a compromise and arrangement of all Affected Claims against the Applicants, in a manner that provides consistent and equitable treatment among the Affected Creditors of the Applicants; and

c) allow for the orderly allocation of the Distribution Pool to the Affected Creditors and the conclusion of the CCAA Proceedings.

52. A fulsome overview of the Plan is provided in the Notice of Meeting and Information Summary, which is attached as Schedule "C" to the November McMillan Affidavit, and a summary of the key elements of the Plan are outlined below.

Substantive Consolidation

53. Pursuant to an Order issued by the Court on November 3, 2010, the Plan has been prepared on a substantively consolidated basis, such that the estates of each of the Applicants have been consolidated into one plan. As a result, Affected Creditors under the consolidated Plan will have one consolidated Claim for voting and distribution purposes in an amount equal to the sum of all their respective separate (but not duplicative) claims against the Applicants**.**

Consideration Available for Distribution

54. The Plan provides that the DIP Lender and any Secured Creditors with valid lien claims will be paid in full in cash on the Plan Implementation Date. Upon those amounts being paid in full, the Plan then provides for the distribution of all remaining proceeds realized from the sale of the Applicants' assets that will exist at the Plan Implementation Date. These proceeds include the Promissory Notes and Common Shares received from the sale of the speciality papers business to Twin Rivers Paper Company Inc. ("**Twin Rivers**"), as well as any of the Applicants' remaining cash (collectively the "**Distribution Pool**") and any cash ultimately released from the L/Cs cash collateralization account.

55. Key matters of note in respect of the Distribution Pool include the following:

a) the Distribution Pool is subject to the residual claim of the DIP Lender, to the extent the cash on closing of the Brookfield Agreement transaction is insufficient to fully repay the DIP Lender;

b) any remaining cash available for distribution to unsecured creditors (including the Cash Purchase Price of $15 million) will be subject to the payment of any priority claims, payment of any valid secured claims, payment of professional fees incurred through to the Plan Implementation Date, the costs of funding the Creditor Trust (as described in paragraph 76 below), payment of post-filing claims which are not Continuing Obligations under the Brookfield Agreement and any reserves required to fund the completion of the administration of the CCAA and the Chapter 15 Proceedings; and

c) the amount of additional Promissory Notes and/or cash reimbursement to be received by the Applicants is not yet finalized, as the Monitor is continuing to review the calculation of certain balances provided by Twin Rivers.

Status of Twin Rivers

56. Since the closing of the SPB Transaction on April 28, 2010 to October 2, 2010, the Monitor understands that Twin Rivers has generated positive EBITDA of $3.8 million and positive operating cash flow of $9 million. However, the strong Canadian dollar has negatively impacted EBITDA by approximately $5 million, compared to budget.

Estimated Residual Cash Balance at the Plan Implementation Date

57. The Applicants have not yet prepared an updated cash flow forecast that reflects the Brookfield Proposal and implementation of the Plan, but will do so prior to the Plan Sanction Hearing. This will enable the DIP Loan balance at the Plan Implementation Date to be more accurately determined.

58. However, at paragraph 87 of the McMillan November Affidavit, the DIP Loan balance at the assumed Plan Implementation Date of January 13, 2011 has been estimated at $11.4 million, meaning there will be an estimated $3.6 million of gross residual cash available (subject to the adjustments contemplated in the Brookfield Agreement).

59. Based on the Monitor's current understanding of the Plan and the claims, the residual cash available to transfer to the 3 Trusts is currently estimated to be approximately $1 million, calculated as follows:

	US$
Gross residual cash balance	3,600,000
Payment of Unaffected Creditor Claims	(200,000)
Payment of post-filing operating costs (other than Continuing Obligations) and post-exit costs of completing the CCAA proceedings	(1,500,000)
Payment of Implementation Payments	(900,000)
Net residual cash available to distribute to the Trusts, to fund trust administrative costs and creditor distributions	**1,000,000**

60. The above calculation excludes the Gorham Mill holding costs (for the period after early December 2010) and assumes the Brookfield Agreement transaction closes on January 13, 2011 and there are no significant variances from forecast.

Treatment of Creditors under the Plan - Unaffected Creditors

61. Other than in relation to the Purchased Companies, the Plan does not affect or compromise the claims and rights of the Unaffected Creditors, which are:

a) Claims secured by the CCAA Charges other than Inter-Company Claims;

b) Claims of Directors pursuant to an indemnity from any Applicant which are not otherwise covered by the Director's Charge;

c) Any claim against any Director that cannot be compromised, due to the provisions of Section 5.1(2) of the CCAA;

d) Government Priority Claims;

e) Secured Claims; and

f) Post-filing Claims.

62. Unaffected Creditors will not be entitled to vote or to receive a distribution under the Plan. The Claims of Unaffected Creditors will be paid in full by the Applicants (other than the Purchased Companies) subject to there being sufficient cash available at the Plan Implementation Date. Should there be insufficient cash to pay the Unaffected Creditors in full, the Unaffected Creditors will have a priority claim to the Distribution Pool.

63. The Applicants have advised the Monitor that they have been paying professional costs as accounts are received, so there is not expected to be any amount for which a claim could be asserted under the Administration Charge. Similarly, the Applicants have also advised that they are not aware of:

a) any amount that is owing that could be considered a Government Priority Claim as defined under the Plan; or

b) any claim against the Directors that would not be compromised under the Plan, and accordingly do not expect there to be any claims made by the Directors under the Directors Charge as defined in the Initial Order.

Treatment of Creditors under the Plan - Affected Creditors

64. The Plan provides that all Creditors having Proven Voting Claims, other than the Unaffected Creditors, shall be categorized into a single Unsecured Creditors Class for purposes of voting on the Plan and receiving distributions. Details on the potential distributions to Affected Creditors is provided at paragraph 70 below.

65. Section F of this report provides some information on potential recoveries for Affected Creditors from any such distributions.

Treatment of Creditors under the Plan - Intercompany Claims

66. Pursuant to the consolidated Plan, the Applicants will not be entitled to vote on the Plan nor will they be entitled to receive any distributions under the Plan in respect of any Inter-Company Claims.

Treatment of Creditors under the Plan - Unresolved Claims

67. An Affected Creditor with an Unresolved Claim will not be entitled to a distribution under the Plan in respect off its Claim until such Unresolved Claim becomes a Proven Distribution Claim.

68. On the Plan Implementation Date, the Monitor will establish an Unresolved Claims Reserve with proceeds from the Distribution Pool and the Implementation Payment sufficient to address all the Unresolved Claims that are subsequently determined to be Proven Distribution Claims.

69. The Monitor will continue to hold the Unresolved Claims Reserve for the benefit of the Affected Creditors who are determined to have Proven Distribution Claims as of the Final Determination Date.

Distribution of the Consideration to Affected Creditors

70. Affected Creditors shall each receive a distribution under the Plan in an amount equal to:

    a) The lesser of $500 or the payment in full of its Proven Distribution Claim (the "**Implementation Payment**"); and

    b) For the balance, if any, of their Proven Distribution Claim greater than $500, a *pro-rata* share of the Distribution Pool, after the Unresolved Claim Reserve has been determined by the Monitor.

71. This distribution will be in full and final satisfaction, compromise, settlement, release and discharge of and exchange for each Proven Distribution Claim.

72. On the Implementation Payment Date, the Monitor, on behalf of the Applicants and after establishing the Unresolved Claim Reserve, will distribute to Affected Creditors with Proven Distribution Claims, the Implementation Payment. Pursuant to the Plan, the Implementation Payment will be made within seven days after the Plan Implementation Date and will be net of any applicable Taxes.

73. The Monitor will distribute an Implementation Payment to each Affected Creditor with an Unresolved Claim upon determination that the Unresolved Claim is a Proven Distribution Claim under the Claims Order.

74. As reported in its Twelfth Report, the Monitor understands that a *pro-rata* distribution of the Promissory Notes and Common Shares to each Affected Creditor would result in Twin Rivers being deemed to be a public company. Therefore, the terms of the Promissory Notes and Common Shares prohibit their wide distribution.

75. As a result, Affected Creditors with Proven Distribution Claims greater than $500 will not be receiving their *pro-rata* share of the Promissory Notes and Common Shares on an individual basis. Rather, on the Plan Implementation Date, the Applicants shall deliver the allocated assets from the Distribution Pool to the following three trusts specifically created for holding the Promissory Notes and Common Shares and any residual cash available for distribution (collectively known as the "**Trusts**"):

a) a trust created to hold the consideration to be distributed in respect of the claim by the NB hourly pension plan (the "**NB Hourly Trust**");

b) a trust created to hold the consideration to be distributed in respect of the claim by the NB salaried pension plan (the "**NB Salaried Trust**"); and

c) a trust to be created to hold the consideration to be distributed in respect of the claims of all other Affected Creditor claims (the "**Creditor Trust**"). The Meeting Materials include a draft trust agreement in respect of this Creditor Trust. This draft trust agreement provides the preliminary framework for the Creditor Trust arrangement and requires input from stakeholders in order to be finalized, including the identity of the trustee and how the trustee is to receive input from the beneficiaries of the trust with respect to key decisions. The tax implications of the Creditor Trust also need to be considered, and a US Creditor Trust may need to be created to mitigate any adverse tax consequences.

76. The Monitor notes that sufficient funding will have to be provided to the Creditor Trust, to permit the Trustee to perform its obligations and duties under the Trust Agreement.

Plan Releases

77. In consideration for the establishment of the Creditor Trust and the distributions to be made pursuant to the Plan, the Plan provides for the release of all claims relating to or otherwise in connection with the Applicants (the "**Releases**"), including those relating to: (a) the business and operations of the Applicants; (b) the property of the Applicants; (c) the CCAA Proceedings and the professionals involved; (d) the Chapter 15 Proceedings and the professionals involved; and (e) all pension plans administered by or on behalf of the Applicants, or in respect of which the directors and officers of the Applicants had any role, whether in their capacity as directors or officers or in any other capacity. The Releases are a condition of the Plan and are required by the Applicants and the Plan Sponsor.

78. Davies, Ward, Phillips & Vineberg LLP ("**Davies**"), the Court-appointed representative counsel of the committee of salaried employees and retirees, has requested and will also receive a Release under the Plan.

D. THE CREDITORS MEETING

79. The Meeting Order requires that creditors who are to receive the Meeting Materials by email are to be emailed by the Monitor by 5 pm on December 6, 2010. Meeting Materials to those creditors who have not provided an email address or who have elected to receive the Meeting Materials by regular mail are to be mailed by the Monitor by 5 pm on December 7, 2010. The Applicants have already made arrangements to obtain the documents to be translated into French pursuant to the draft Meeting Order, to accommodate the timeframes noted above.

80. The Applicants' propose that the creditors meeting be held at the Hyatt Regency Toronto (370 King Street West, Toronto, M5V 1J9 in the Regency A Room) at 10 am Eastern Standard Time on December 20, 2010, with Canadian Court sanction of the vote, if approved, on December 22, 2010 and US Bankruptcy Court approval on December 23, 2010.

81. The timeline advanced by the Applicants between the delivery of Plan materials to creditors to the voting date and meeting date is limited, and is being driven by the significant additional costs that would be incurred in respect of the CCAA and Chapter 15 Proceedings and the operating costs of the Applicants, if a significant delay in the Plan Implementation Date is experienced.

82. The Applicants have been working in good faith to try and ensure the stakeholders have sufficient information with respect to the Plan and the Brookfield Agreement and have, where possible, provided updates to creditors as to the direction of the Plan, including an overview of the Plan in the October McMillan Affidavit. The Applicants, in conjunction with the Monitor, have also been talking with representatives of the large stakeholder groups to address questions in connection with the framework of the Plan.

83. To facilitate the limited timeline proposed by the Applicants, the Applicants intend to:

a) send the key Plan documents by email to all creditors who have provided the Monitor with an email address, unless the creditor has requested that the Meeting Materials be sent by regular mail. In this respect, on November 24, 2010 the Monitor emailed all 837 creditors who had either provided the Monitor with an email address on their proof of claim or the Monitor was able to obtain an email address for the creditor, requesting that the creditor confirm that the email address is still valid and to request that creditors notify the Monitor if they would prefer to receive the Meeting Materials by regular mail. As of close of business on December 1, 2010, 599 creditors have responded of which 57 have requested Meeting Materials by regular mail. A reminder email was sent on November 30, 2010 to those creditors who have not yet responded. The Monitor will provide the Court with updated information on the number of creditors who have responded to this email at the hearing on December 3, 2010. The Monitor notes that the November 24, 2010 email included information on the timing of when the creditors meeting would be held and when court sanction would be sought;

b) have a limited number of copies of the Meeting Materials available for pick-up by creditors at various of the Applicants current/former locales where the creditor genuinely has no access to a computer (including at Twin Rivers' facilities in Edmundston, Plaster Rock and Madawaska; at the Applicants facilities in Masardis and Gorham; and with the unions consent, at the union office in Thurso, Quebec);

c) speed up the delivery of Meeting Materials delivered by regular mail for creditors in Quebec, New Brunswick, Maine and New Hampshire, by having the Meeting Materials mailed by designated representatives in those provinces/states; and

d) host two webcasts (one for trade creditors and one for employees and former employees) on or around December 10, 2010, where the Plan will be discussed and to provide a forum where stakeholders can ask questions.

84. The Applicants have advised that the Creditors Meeting is being held in Toronto in order to attempt to reduce the overall costs of the Plan, and in view of the numerous locations at which the Applicants previously operated.

Voting requirements

85. In order for the Plan to be accepted by the Affected Creditors, two thirds by value and a majority in number of those Affected Creditors voting must vote in favour of the Plan.

86. Affected Creditors may vote by mailing in the properly completed Proxy Form (contained in the Meeting Materials) or by attending the Creditors Meeting in person.

E. THE STATUS OF CLAIMS PROCESS

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 November 29, 2010

($000's)	Received (#)	Total Claims Received ($)	Claims Disallowed ($)	Claims Allowed (b)(f) (#)	Claims Allowed (b)(f) ($)	Total Claims Assumed/Discharged due to Asset Sales (#)	Total Claims Assumed/Discharged due to Asset Sales ($)	Balance of Claims Allowed (#)	Balance of Claims Allowed ($)	Claims Pending - To be Resolved (#)	Claims Pending - To be Resolved ($)	Dispute Notices Received (#)	Dispute Notices Received ($)	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	214	2	25,037	1	25,000	1	37	-	-	-	-	
Trade	955	66,391	31,784	949	34,608	3	2,105	946	32,503	-	-	26	60,918	(b)
Employee Claims	156	398,481	236,041	33	12,265	1	11	32	12,254	4	150,926	50	11,107	
Pension Claims	16	783,431	493,708	5	289,723	-	-	5	289,723	-	-	3	159,490	(c)
Sub - Total	1,134	1,273,554	761,747	989	361,633	5	27,116	984	334,517	4	150,926	79	231,515	
Total	**1,205**	**1,425,107**	**880,629**	**1,004**	**394,304**	**16**	**59,669**	**988**	**334,635**	**4**	**150,926**	**101**	**235,090**	(d) (e) (f) & (g)
Claims/Dispute Notices still under Review										4	**150,926**	**12**	**70,030**	(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 BAM secured guarantee of $50MM provided to CIT and CIBC - this claim was 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 NB plans (hourly & salaried) 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 upon Moreau Sobeco filing its final claim. Davies and CEP have withdrawn their claims and disputes relating to the NB Hourly Plan, which the Monitor has reflected in the table above. CEP recently attempted to reinstate its duplicate claim in respect of the NB Hourly Pension Plan. This issue is being reviewed by the Claims Officer.
(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 1004 do not include intercompany claims or 14 contingent claims. The contingent claims are to be valued if accepted for voting and distribution purposes (being the claims of BAM, Brookfield US and Old Republic). Contingent claims also includes employee claims, the majority of which are pension claims.
(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 1004 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 1004. 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. The OPEB claims have been forwarded to the Claims Officer for review. A decision on the treatment of these claims should be available by the end of December 2010

87. As set out in the claims table above, as at November 29, 2010, the Monitor had received a total of 1,205 claims having a total value of $1.425 billion. The Monitor has issued Notices of Disallowances in respect of claims or portions of claims in the total amount of $880.6 million, leaving a balance of 1,004 allowed claims valued at $394.3 million. Sixteen of these allowed claims (having a value of $59.7 million) have been either assumed or discharged due to prior asset sales leaving a balance of 988 allowed claims having a value of $334.6 million.

88. In addition to the allowed claims as of the date of the filing of this report, there were approximately 16 claims having a value of approximately $220.9 million that remain unresolved, comprised of:

a) 12 disallowed claims valued at $70 million where a Notice of Dispute has been filed by the creditor and the disputes remain unresolved. These totals do not include the attempted reinstatement of a duplicate claim filed by the CEP in respect of the NB Hourly Pension Plan, that had previously been withdrawn; and

b) 4 claims totalling $150.9 million that are still pending.

Disputed Claims

89. Of the 12 unresolved disputed claims totalling $70 million, 3 valued at $27.5 million relate to trade creditor claims, while the remaining 9 valued at $42.5 million relate to employee claims.

90. As reported in the Monitor's Thirteenth Report, the disputed claims include a number of duplicate claims. One claim in the amount of $31.3 million is a duplicate claim filed by the SCEP in respect of the Thurso Hourly Pension Plan. It has been forwarded to the Claims Officer for review.

91. Two employee claims valued at approximately $6.8 million are expected to be withdrawn:

a) a $3.0 million disputed claim filed by the Ontario Superintendent of Financial Services in regards to the New Brunswick Hourly pension plan is expected to be withdrawn once a final claim has been filed by the administrator of the New Brunswick pension plans; and

b) a $3.8 million disputed claim relates to a duplicate claim that has been filed as both a pre-filing and a restructuring claim.

92. The majority of the remaining $31.9 million in 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) 1 claim totalling $26.8 million (from MGP Papier) is to be resolved by the Court. The Monitor understands that the Applicants' counsel is dealing directly with that creditor's legal counsel to schedule a court hearing to address this claim within the next month;

b) 2 claims totalling $2.2 million are currently being determined by a labour arbitrator with the consent of the Claims Officer. The arbitration has been scheduled for December 17, 2010;

c) one claim valued at $0.2 million has been forwarded to the Claims Officer for review; and

d) the remaining disputed claims valued at approximately $2.7 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 any duplicate claims withdrawn.

93. 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.

Pending Claims

94. The four pending claims outstanding are in respect of the Applicants' employees' other post employment benefits ("**OPEBs**") and supplemental employee retirement plans

("**SERPs**"), totalling $150.9 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. As reported in the Monitor's Thirteenth Report, 2 OPEB claims having a value of approximately $141.2 million have been submitted to the Claims Officer, and it is expected that the treatment of the OPEB claim should be resolved by the end of December 2010. The Monitor, the Applicants and its counsel are still evaluating the 2 SERP claims.

95. In addition to the allowed, disputed or pending claims described above, the Monitor notes that the following circumstances may alter the number and value of the Allowed Claims:

a) 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 has filed "placeholder" claims in the amount of CDN$125.0 million and CDN$27.0 million for the pension deficit in the NB Hourly and Salary pension plans respectively, representing the current best estimates of Morneau as to the final deficits of these plans. Morneau had originally advised that the final claims and supporting documentation would be filed upon completion of the Pension Plan wind up reports. However, those wind up reports are not yet available and Morneau did not provide the Monitor with a timeline as to when the wind-up reports would be complete;

b) The value of certain claims either assumed by the purchasers or paid upon closing of the SPB and Thurso Mill sales has not yet been confirmed as withdrawn by the respective creditors and, therefore, excluded from the table above. The Monitor is working with the Applicants, their counsel and the applicable creditors to have these claims withdrawn; and

c) As the Gorham Mill and Maine Lumber Mill asset sales are still to be completed, there may be additional Restructuring Claims filed by creditors as a

result of any employee terminations or repudiation of contracts still to be completed.

F. THE ANTICIPATED RECOVERY FOR AFFECTED CREDITORS

96. As set out in paragraph 54 of this report, the Distribution Pool is expected to be comprised of the Promissory Notes, the Common Shares, any remaining cash balance and any cash ultimately released from the L/Cs cash collateralization account. As the Applicants will not be carrying on business after the Plan Implementation Date, and as the Applicants will have no other assets with which to satisfy the claims of creditors, the Distribution Pool is fixed and not subject to increase, other than through the continuing efforts of the Applicants to obtain the best value for any remaining assets and any increases in value of the Common Shares above their notional value.

97. It is currently very difficult to estimate the eventual actual recovery for the Affected Creditors pursuant to the Plan due to several variables, including:

a) the uncertainty surrounding the ultimate realizable value of the Promissory Notes and Common Shares, as their value is entirely dependent on Twin Rivers' future financial performance;

b) the Promissory Notes and Common Shares cannot be sold to any third party, without Twin Rivers' consent. In addition, the Promissory Notes do not mature until 2018 and there is no mechanism in the SPB APA or Plan for the Applicants to be able to monetize or realize on the Common Shares without Twin Rivers' and/or Brookfield's involvement/consent (e.g. through a buy-back of the shares by Twin Rivers, a sale of Twin Rivers to a third party or a public offering);

c) the quantum of cash ultimately released from the L/Cs cash collateralization account; and

d) the large quantum of unresolved/disputed claims.

98. Notwithstanding the foregoing, for illustrative purposes only, the Monitor has provided an estimated recovery percentage for Affected Creditors with Proven Distribution Claims based on the Plan and the following two scenarios:

I. Full par value for the Promissory Notes is realized, coupled with the Common Shares being sold for their April 28, 2010 notional value ($10 per share). Total claims are based on the Allowed Claims coupled with an estimate of the lower end of the likely allowed amount of unresolved claims, totalling $27 million; and

II. Full par value for the Promissory Notes is realized, coupled with the Common Shares being sold for their April 28, 2010 notional value ($10 per share). Total claims are based on the Allowed Claims and the full amount of the unresolved claims of $183 million.

Illustrative Recovery Analysis		
	Scenario 1	**Scenario 2**
Potential Values Realized		
Promissory Notes, at par value	$44,000	$44,000
Common Shares, at $10 notional value	$24,019	$24,019
Excess L/Cs cash collateral released (a)	TBD	TBD
Cash Transferred to the Trust (b)	$1,000	$1,000
Total Potential Recoveries - undiscounted	$69,019	$69,019
Potential Claims Allowed		
Allowed Claims to Date	$336,094	$336,094
Potential Additional Unresolved Claims Allowed	$27,000	$183,000
Total Potential Claims Allowed	$363,094	$519,094
Percentage Recovery for Affected Creditors	**19%**	**13%**

(a) The amount is to be determined

(b) The cash in the Trust that is available for distribution is net of Trust Administration expenses.

99. Additional matters that may affect the recovery for Affected Creditors include the following:

a) any significant cash distributions to Affected Creditors from the Trusts will only occur upon realization of the Promissory Notes and Common Shares held in the Trusts. As noted above, the Promissory Notes do not mature until April 2018. Therefore, unless the Promissory Notes are repaid prior to the maturity date, any distribution to Affected Creditors with Allowed Claims will not occur until after the maturity of the Promissory Notes. Being equity, the Common Shares have no fixed date of repayment, and therefore the potential timing and quantum of any realization from these shares is uncertain and may, therefore, be significantly later than 2018. The recoveries in the above table have been presented on an undiscounted basis. As such, the net present value of the illustrated recoveries will be lower than shown, depending on the discounting period and the discount rate used;

b) the creditor recovery percentages ignore any Implementation Payments made; and

c) in addition to the unresolved claims included in the table above, the circumstances noted in paragraph 95 above may result in changes in the Allowed Claims.

G. THE CONDITIONS PRECEDENT TO PLAN IMPLEMENTATION

100. The implementation of the Plan is conditional upon the satisfaction or waiver by the Applicants, Plan Sponsor, and the DIP Lender, as applicable, of the following conditions prior to the Plan Implementation Date:

a) The Plan being approved by the Required Majority of the Affected Creditors at the Creditors Meeting as set out in paragraph 79 of this report;

b) The Plan terms being acceptable to the Plan Sponsor;

c) The Sanction Order and Vesting Order being issued by the Canadian Court on or before December 23, 2010, unless otherwise agreed by the Applicants and the Monitor;

d) The Sanction Recognition Order and U.S. Sale Order being issued by the U.S. Court on or before December 24, 2010, unless otherwise agreed by the Applicants and the Monitor;

e) All applicable appeal periods in respect of the Sanction Order, the Vesting Order, the Sanction Recognition Order and the U.S. Sale Order having expired;

f) Repayment of all amounts secured under the DIP Lender's Charge;

g) Resolution of all Secured Claims on terms acceptable to the Applicants and the Monitor or pursuant to an order of the Court; and

h) The establishment and funding of the Creditor Trust.

Plan Implementation Date

101. If the Plan is approved by the required majority of Affected Creditors, the sanction of the Plan by the Canadian and U.S. Courts will be sought on December 22, 2010 and December 23, 2010, respectively.

102. Provided the Plan is sanctioned by the Canadian and U.S. Courts, the Applicants anticipate the Plan Implementation Date to be on or about January 13, 2011.

H. THE ALTERNATIVES TO AND CONSEQUENCES OF REJECTING THE PLAN

103. In the event the Plan is not approved and provided there is continued availability of sufficient DIP Financing, the Monitor presumes that the Applicants would proceed to try and sell the Maine Lumber Mills and the Gorham Mill, if necessary, to third parties.

104. Assuming the Maine Lumber Mills and the Gorham Mill, if necessary, could be sold for the highest price submitted by the respective third party offerors, it is very likely

that the net recoveries in this alternate scenario to the Affected Creditors would be significantly lower than projected in the Plan because:

a) The $3 million Brookfield Premium will not be received;

b) Additional holding costs would have to be paid in respect of the Gorham Mill for the period to the closing of the sale; and

c) Significant additional professional fees would be incurred in completing the sale of these mills and attempting to finalize an alternate plan of arrangement.

105. As a result of these matters, the probability of the Applicants having sufficient cash to complete the sales of the remaining assets, finalize a new CCAA plan, fund the Creditor Trust and/or fund the Implementation Payment is significantly reduced or could be zero. This could result in the inability to complete an alternate CCAA plan or the DIP Lender retaining some or all of the Promissory Notes and Common Shares, pending full repayment of the DIP Loan, which would further negatively impact the unsecured creditors' recovery as compared to the Plan.

I. MONITOR'S RECOMMENDATIONS

106. The Applicants are incurring significant costs with the continuation of the CCAA Proceedings and the failure to have the Plan approved and implemented as efficiently as possible within the proposed time frame could negatively impact the availability of Cash that might otherwise be available for distribution to the Applicants' creditors.

107. A key factor for the Applicants and their stakeholders is that there is negative monthly cash loss based on their operations and the ongoing expenses of the CCAA Proceedings. The completion of the Brookfield Agreement transaction, the implementation of the Plan in a timely manner and the completion of the post-closing CCAA matters provides greater certainty to the Applicants' stakeholders that there will be sufficient funds to fund the Trusts, make the Implementation Payments and have the benefit of the Common Shares and Promissory Notes from the SPB Transaction.

108. As outlined in this report, on one side, the Brookfield Agreement transaction provides the best alternative to the stakeholders under the circumstances and delivers certainty of a "global" transaction to finalize the recovery of the remaining material assets of the Applicants. On the other side, the Brookfield Agreement makes the US Tax Losses available to Brookfield, which could have material value to Brookfield. Accordingly, it is difficult based on such factors to perfectly evaluate the purchase price on the Brookfield Agreement transaction as it represents value to both parties and the best alternative to both the stakeholders and Brookfield. The Plan provides the opportunity for stakeholders to fully evaluate the Brookfield Agreement and the terms of the Plan, and to vote based on disclosure of all material facts relating to the transaction and the available alternatives to such stakeholders.

109. In order to attempt to minimize costs and maximize recoveries to creditors, the Applicants wish to proceed with the Creditors Meeting on December 20, 2010. The Applicants and the Monitor are committed to take all reasonable steps to provide relevant information and documents or other factual matters to the Applicants' creditors and their advisors in advance of the Creditors Meeting to properly consider the Plan

110. A significant factor regarding the timeline advanced by the Applicants is to ensure that all creditors have the necessary time and resources to properly make an informed and balanced decision in respect of the Plan. The Monitor believes that the views of the Applicants' key stakeholders will be essential in determining whether the timeline advanced by the Applicants is appropriate under the circumstances. On December 1, 2010, the court-appointed representative counsel for the salaried employees and retirees (Davies) and counsel for the CEP delivered correspondence to the Applicants' counsel in which they expressed concerns regarding the timeline advanced by the Applicants and certain other Plan matters. The Monitor also understands that the Applicants have had discussions with the PBGC, Morneau Sobeco (the administrator of the New Brunswick Pension Plans) and the NB Superintendent, who are supportive of the timeline advanced by the Applicants.

111. The Applicants filed detailed motion materials, including the Plan, with the Court on November 30, 2010 and provided drafts of the key Plan documents to certain advisors of the stakeholders on November 26, 2010 in order to ensure they would have the factual framework of all Plan matters. In addition, the Monitor, with the Applicants, spoke with such parties on November 29, 2010 to provide additional information in advance of the delivery of the Applicants motion record on November 30, 2010. With the Applicants filed motion materials and this report, the stakeholders will have additional time in advance of December 3, 2010 to properly consider the timeline of the Applicants with respect to the meeting of creditors and Court approval matters in Canada and the U.S. with respect to any approved Plan. Accordingly, the input and views of such parties on the return of the Meeting Order motion on December 3, 2010 in respect of the meeting date should be a significant factor for the Court, the Applicants and the Monitor to consider under the circumstances.

112. Based on the foregoing, the Monitor considers the Plan to be fair and reasonable in the circumstances and that it provides the potential for a higher recovery for creditors than is otherwise available. Therefore, the Monitor recommends that the creditors vote in favour of the Plan.

113. Based on the foregoing, the Monitor also supports the Applicants' request for the Meeting Order.

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

Dated at Toronto, Ontario this 2nd day of December, 2010.

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

John McKenna
Senior Vice President