

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 EIGHTEENTH REPORT TO THE COURT

February 9, 2011



ONTARIO SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

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

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

Applicants

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

INTRODUCTION

1. The purpose of this, the Monitor's Eighteenth Report, is to provide stakeholders and the Court with information pertaining to:
 - a) the mailing of the new Notice to Creditors and February Meeting Materials;
 - b) amendments to the Applicants' Amended Consolidated Plan of Compromise and Arrangement dated January 27, 2011, as amended (the "**Amended Plan**");
 - c) the results of the Meeting of Creditors held on February 8, 2011 (the "**February Creditors' Meeting**");
 - d) amendments to the Creditor Trust Agreement;
 - e) the Workers Compensation L/C Administration Agreement;

- f) updates regarding the estimated Distribution Pool;
 - g) an adjustment to the Promissory Notes;
 - h) the status of the Claims Process; and
 - i) the Monitor's recommendations.
2. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. Dollars.
3. Capitalized terms used herein and not otherwise defined herein, are as defined in the Amended Plan, the Initial Order, the Claims Process Order, the Meeting Order, the Supplemental Meeting Order and the Affidavit of Glen McMillan sworn February 4, 2011 (the "**McMillan February Affidavit**"), as applicable. This report should be read in conjunction with the McMillan February Affidavit as certain information contained therein has not been reproduced in this report to avoid duplication.
4. The Monitor has based this report, in part, on information it has obtained from the Applicants but has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of such information contained in this report.
- A. MAILING OF THE NOTICE TO CREDITORS AND THE FEBRUARY MEETING MATERIALS**
5. On February 1, 2011, the Court made an Order (the "**Supplemental Meeting Order**") accepting the filing of the Amended Plan and authorizing and establishing the procedure for Affected Creditors of the Applicants to consider and vote on the Amended Plan. The Monitor's analysis and recommendations with respect to the Amended Plan are provided in the Monitor's Seventeenth Report dated January 31, 2011.

6. The Supplemental Meeting Order established the procedure for providing notice of the February Creditors' Meeting to the Affected Creditors and for distribution of the February Meeting Materials.
7. Pursuant to the Supplemental Meeting Order, on February 1, 2011, an electronic copy of the February Meeting Materials was posted to the Monitor's website.
8. Pursuant to the Supplemental Meeting Order, on February 1, 2011, the Monitor sent a copy of the following documents by email to 960 Affected Creditors:
 - 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 all other February Meeting Materials and the Meeting Materials relating to the January Meeting.
9. Pursuant to the Supplemental Meeting Order, on February 1, 2011, the Monitor sent a copy of the February Meeting Materials (where applicable, in the language that such Affected Creditor filed its proxy) by courier to 88 Affected Creditors that had voted, in person or by proxy, at the January Meeting and had either not provided the Monitor with an email address or had previously elected to receive the Meeting Materials by regular mail.
10. On February 4, 2011, the Monitor's Counsel sent a copy of the February Meeting Materials by email to the 64 individuals and/or firms included on the Service List, where email addresses were provided.

B. AMENDMENTS TO THE AMENDED PLAN

11. In its Seventeenth Report, the Monitor reported that in addition to the NB Hourly Trust, the NB Salaried Trust and the Creditor Trust, the Amended Plan included the establishment of a U.S. creditor trust to hold the *pro rata* share of the Distribution Pool for the benefit of Affected Creditors with Proven Distribution Claims that are residents of the United States (other than those U.S. residents that may be included in the NB Hourly Trust and the NB Salaried Trust).
12. Since the filing of its Seventeenth Report, the Pension Benefit Guaranty Corporation (“**PBGC**”), which terminated and assumed the wound up pension plan for the Applicants’ former U.S. employees and retirees, has advised the Applicants that it wishes to hold its *pro rata* share of the Distribution Pool directly as opposed to through the Creditor Trust.
13. The Monitor understands that the Applicants have discussed PBGC’s request with Twin Rivers and BAM who, together with the Applicants, are parties to a Unanimous Shareholders’ Agreement (“**USA**”) dated April 28, 2010, which governs the Common Shares of Twin Rivers. Twin Rivers and BAM have confirmed that, subject to the PBGC executing and delivering all requisite acknowledgments contemplated by the USA and the terms of the Promissory Notes acknowledging the restrictions as to assignability and transferability of the Common Shares and the Promissory Notes, together with all related documents to their satisfaction, PBGC will receive its *pro rata* share of the Promissory Notes and Common Shares directly.
14. PGBC has filed an unsecured claim in the amount of \$112,490,160, which has been accepted by the Applicants and the Monitor as a Proven Distribution Claim. The PBGC Claim represents approximately 85% of the total claims filed by U.S. residents that would have formed part of a US Creditor Trust, if established.

15. Following PGBC's decision to hold its *pro rata* share of the Distribution Pool directly, the Applicants and the Monitor, in consultation with their respective U.S. and Canadian advisors, determined that the cost to establish and administer a U.S. creditor trust for the benefit of Affected Creditors that are U.S. residents, but are not included in the PBGC Claim, would outweigh the benefit of a separate U.S. creditor trust for these creditors. The Applicants have therefore amended the Amended Plan to enable PGBC to hold its *pro rata* share of the Distribution Pool directly and to eliminate the requirement to establish a U.S. creditor trust. As a result, Affected Creditors that are residents of the U.S. will also be beneficiaries of the Creditor Trust. For clarity, the Creditor Trust will include all Affected Creditors that are not beneficiaries of the NB Hourly Trust, the NB Salaried Trust or included in the PBGC Claim.

C. RESULTS OF THE FEBRUARY CREDITORS' MEETING

16. The February Creditors' Meeting of the Unsecured Creditors Class ("**Meeting**") to consider and vote on a resolution to approve the Amended Plan ("**Plan Resolution**") was held on February 8, 2011 at the offices of Thornton Grout Finnigan LLP, Canadian Pacific Tower, 100 Wellington Street West, Suite 3200, Toronto, ON. The Meeting commenced at 10:09 A.M. (E.S.T.) and was conducted in accordance with the Meeting Order and the Supplemental Meeting Order.
17. Mr. John McKenna, a representative of the Monitor, acted as Chair (the "**Chair**") of the Meeting.
18. Michelle Pickett, a representative of the Monitor, acted as Secretary and took minutes of the discussions held and decisions made at the Meeting.
19. Tracey Weaver, a representative of the Monitor, acted as Scrutineer and tabulated the votes cast in respect of the Proven Voting Claims, the Unresolved Claims and the Duplicate Claims.

20. Prior to commencing the Meeting, the Chair confirmed that a quorum of Affected Creditors was present, in person or by Proxy and, as such, the Meeting was duly constituted.
21. A total of 338 Affected Creditors having Proven Voting Claims totalling \$208,031,046 were in attendance, in person or by proxy, at the Meeting.
22. A total of 4 Affected Creditors with Unresolved Claims totalling \$29,515,120 were also in attendance, in person or by proxy, at the Meeting.
23. A total of 2 Affected Creditors with Duplicate Claims totalling \$137,378,246 were also in attendance, in person or by proxy, at the Meeting.
24. The voting on the Plan Resolution, by the Affected Creditors with Proven Voting Claims, at the Meeting was as follows:

Results of Vote of Proven Voting Claims				
	By Number		By Value	
<i>Majority required to approve Plan</i>		50.01%		66.67%
Creditors	Number	%	\$	%
Voting For	320	94.7%	156,666,122	75.3%
Voting Against	18	5.3%	51,365,224	24.7%
Total	338	100.0	208,031,346	100.0
	Required Majority Obtained		Required Majority Obtained	

25. Based on the above results, 94.7% of the Affected Creditors present and voting, in person or by proxy, representing 75.3% of the value of the Proven Voting Claims voted to approve the Amended Plan, while 5.3% of the Affected Creditors present and voting, in person or by proxy, representing 24.7% of the Proven Voting Claims voted against the Amended Plan.

26. Based on the foregoing results, the Required Majority of the Unsecured Creditors Class required to vote for the Amended Plan was obtained and, as such, the Amended Plan has been approved by the Affected Creditors pursuant to the CCAA.
27. The Scrutineer also separately tabulated the votes cast in respect of Unresolved Claims, including Duplicate Claims.
28. The Chair reported at the Meeting that 4 Unresolved Claims with a total value of \$29,515,120 filed proxies in the Unsecured Creditors' Class. The votes cast on the Plan Resolution by the Affected Creditors holding Unresolved Claims at the Meeting (which does not affect the approval or non-approval of the Amended Plan pursuant to the CCAA based on the foregoing results) was as follows:

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

29. Pursuant to paragraph 26 of the Meeting Order and paragraph 13 of the Supplemental Meeting Order, each person with a Duplicate Claim was entitled to vote such claim as a Proven Voting Claim at the Meeting, provided however, that the votes cast in respect of such Proven Voting Claim would only be counted by the Monitor in the event that the votes in respect of such Duplicate Claim were not contradictory.
30. The Chair reported at the Meeting that proxies were received in respect of 2 Duplicate Claims with a total value of \$137,378,246 as follows:
- a) The CEP and the Quebec pension committee filed Duplicate Claims with the Monitor in the amount of \$27,238,977 in respect of the Quebec Hourly Plan, which both voted against the Amended Plan at the Meeting. As these votes were

not contradictory, and in accordance with paragraph 26 of the Meeting Order and paragraph 13 of the Supplemental Meeting Order, one vote in respect of these claims was counted in the results of the vote at the Meeting.

- b) The CEP and Morneau, the administrator of the NB Hourly Plan, filed Duplicate Claims with the Monitor in the amount of \$110,139,269 in respect of the NB Hourly Plan. The Monitor had previously requested the CEP to withdraw its Duplicate Claim after Morneau filed its claim in respect of the NB Hourly Plan. The CEP did so, but later informed the Monitor that it reinstated its claim in respect of the NB Hourly Plan. At the Meeting, Morneau voted its Duplicate Claim in respect of the NB Hourly Plan in favour of the Amended Plan while the CEP voted its Duplicate Claim in respect of the NB Hourly Plan against the Amended Plan. As a result of these contradictory votes and, in accordance with paragraph 26 of the Meeting Order and paragraph 13 of the Supplemental Meeting Order, the votes in respect of these claims have not been counted in the results of the vote at the Meeting.
31. If the claim filed by Morneau in respect of the NB Hourly Plan was factored into the results of the vote at the Meeting, 94.7% of Affected Creditors in number and 83.9% of Affected Creditors by dollar would have voted to approve the Amended Plan.
32. The Affected Creditors did not vote in respect of any other matters at the Meeting.

D. AMENDMENTS TO THE CREDITOR TRUST AGREEMENT

33. As detailed above, the Amended Plan has been revised (since the version filed with the Applicants' motion materials on January 27, 2011), such that there will not be a separate trust established for the benefit of Affected Creditors that are residents of the U.S. and who are not included in the NB Hourly Trust or NB Salaried Trust. Pursuant to the Amended Plan, three Trusts will hold the *pro rata* share of Promissory Notes and Common Shares and any residual cash of the Applicants for the benefit of Affected

Creditors with Proven Distribution Claims: the NB Hourly Trust, the NB Salaried Trust and the Creditor Trust. In addition, PGBC will hold its *pro rata* share of the Distribution Pool directly.

34. PricewaterhouseCoopers Inc. has agreed to act as trustee of the Creditor Trust.

Creditor Trust Advisory Committee Members

35. The Monitor has contacted a few of the Applicants' larger trade creditors to enquire whether one of their representatives would be prepared to act as a member of the Creditor Trust Advisory Committee. Discussions with these creditors continue and the Monitor is hopeful that a representative of these creditors will agree to act as a member of the Advisory Committee by, or shortly after, the Plan Implementation Date. Failure to obtain a full slate of 3 Advisory Committee members will not impact implementation of the Plan or the ability of the trustee to carry out its functions as trustee.

E. WORKERS COMPENSATION L/C ADMINISTRATION AGREEMENT

36. Pursuant to the Transaction Agreement, the Plan Sponsor has agreed to assume responsibility for managing the remaining Workers Compensation Obligations and related letters of credit (as detailed in the Monitor's Seventeenth Report) on behalf of the three Trusts and PBGC (the "**L/C Beneficiaries**")
37. The Applicants, in consultation with the Monitor, have agreed upon the terms of an administration agreement under which the Plan Sponsor will manage the Workers Compensation Obligations and reimburse the L/C Beneficiaries for any reductions in the applicable letters of credit (the "**L/C Administration Agreement**"). A copy of the L/C Administration Agreement is attached hereto as Appendix A.

38. The key aspects of the L/C Administration Agreement are:
- a) The Plan Sponsor shall take commercially reasonable steps to settle all Workers Compensation Obligations on a timely basis;
 - b) The Plan Sponsor will consult with the L/C Beneficiaries prior to any settlement of any Workers Compensation Obligations;
 - c) The Plan Sponsor will provide annual reporting to the L/C Beneficiaries within 30 days of the end of the reporting period, and additional reports upon the occurrence of any material events that could be reasonably expected to affect the Workers Compensation Obligations;
 - d) The Plan Sponsor will make a cash reimbursement to the L/C Beneficiaries within 60 days of any reduction of the underlying Brookfield Letters of Credit or Adjusted Brookfield Letters of Credit. The amount of the reimbursement is equal to the amount of the reduction of the underlying Brookfield Letters of Credit or Adjusted Brookfield Letters of Credit less any payments, insurance deductibles, reasonable accrued costs and out of pocket expenditures paid or otherwise disbursed to settle Workers Compensation Obligations; and
 - e) The first \$500,000 of any cash reimbursement available to be paid to the L/C Beneficiaries will be retained by the Plan Sponsor, in satisfaction of the \$500,000 prepayment by the Plan Sponsor on the Plan Implementation Date, as detailed in the McMillan February Affidavit.

F. UPDATES REGARDING THE DISTRIBUTION POOL

39. As reported in the Monitor's Seventeenth Report, there are a number of potential other recoveries, which were not included in the Cash Flow Forecast (attached as Exhibit C to the January 28 McMillan Affidavit) and which will form part of the Distribution Pool when received.

40. The McMillan February Affidavit provides additional information on these amounts, both in terms of the estimated realization value of these receivables (as much as \$2.6 million plus any sales tax recoveries) and the timing and steps involved in collecting same.
41. The Monitor understands that the Applicants own two parcels of land in each of the municipalities of Notre Dame du Laus and Antoine Labelle, Quebec. The Monitor has been advised by the Applicants that:
- a) the properties were owned by a predecessor company and have not been used by the Applicants for operational purposes for several years; and
 - b) the Applicants have ceased paying property taxes on these properties and are attempting to sell them to the municipalities for a nominal amount.

G. ADJUSTMENT TO THE PROMISSORY NOTES

42. Pursuant to the SPB asset purchase agreement (“SPB APA”), \$10 million in Promissory Notes received on closing were to be held in trust by the Monitor until the earlier of (i) the Plan Implementation Date; or (ii) one year following the closing of the SPB transaction, as security for any post-closing claims made by Twin Rivers. The Applicants have advised the Monitor that, based on discussions with Twin Rivers, the estimated claims against the \$10 million holdback are approximately \$117,000.
43. These claims represent secured liabilities of the Applicants that were not discharged on the closing of the SPB Transaction and were assumed by Twin Rivers.

H. THE STATUS OF THE CLAIMS PROCESS

44. Set out below is a summary of the Proofs of Claim received and their status as at February 8, 2011 which shows that, as at that date, there were 1,069 allowed claims having a value of approximately \$333.2 million.

45. The summary reflects that there have no significant changes in the status of claims since the Monitor's Sixteenth Report.

FRASER PAPERS INC./PAPIERS FRASER INC., FPS CANADA INC. FRASER PAPERS HOLDINGS INC. FRASER TIMER LIMITED., FRASER PAPERS LIMITED, FRASER N.H. LLC (collectively the "Applicants")											
Proof of Claims Summary as at February 8, 2011											
(\$000's)	Value of Allowed Claims		Unresolved Claims (valued for Voting Purposes)		Total Value of Allowed Claims (unsecured only for Voting Purposes)		Unresolved Dispute Notices		Duplicate Claims		Notes
	(#)	(\$)	(#)	(\$)	(#)	(\$)	(#)	(\$)	(#)	(\$)	
Secured											
Lenders	-	-	-	-	-	-	-	-	-	-	
Liens / Others	2	79	-	-	2	79	-	-	-	-	(a)
Employee Claims	-	-	-	-	-	-	-	-	-	-	
Pension Claims	-	-	-	-	-	-	-	-	1	3,083	(c)
Sub - Total	2	79	-	-	2	79	-	-	1	3,083	
Unsecured											
Lenders	1	36	-	-	1	36	-	-	-	-	
Trade	809	31,574	-	-	809	31,574	1	26,759	-	-	(a) (d)
Employee Claims	252	12,579	69	9,437	321	22,016	3	2,756	3	14	(b) (d)
Pension Claims	5	288,978	-	-	5	288,978	-	-	2	137,378	(c)
Sub - Total	1,067	333,167	69	9,437	1,136	342,604	4	29,515	5	137,392	
Total	1,069	333,246	69	9,437	1,138	342,683	4	29,515	6	140,475	
Notes:											
(a) Excludes the contingent claims that have no amounts allowed as at the date of this report being (i) secured claims of BAM and Old Republic; and (ii) unsecured claim of Brookfield US. BAM has advised that it will withdraw its contingent secured claim on Plan Implementation. The Old Republic claim has been valued at \$0 for voting and distribution purposes. Twin Rivers has assumed the liabilities in respect of the \$79K in secured claims. These claims are expected to be withdrawn after they are paid by Twin Rivers. These value of these secured claims are included in the adjustment to the Promissory Note Holdback.											
(b) The value of the Unresolved Claims relates to the employee claims for SERP. Subsequent to the preparation of this table, the Applicants and the counsel for the SERP claimants agreed to a settlement of these claims, which is not reflected in the table above.											
(c) Allowed claims include contingent placeholder claims in respect of the Quebec Hourly and Salaried Pension Plans. The placeholder claims were accepted by the Monitor on a contingent basis, pursuant to its issuance of a Notice of Revision and Disallowance ("NOD") to the Pension Plans. At the time the Monitor issued the NODs (2009) the pension plans had not been terminated, hence the final value of the pension claims could not be determined. The placeholder claims were contingently accepted pending final valuation of the pension claims upon termination of the pension plans. Morneau Sobeco, Administrator of the NB pension plans, has filed a final claim in respect of the New Brunswick Hourly and New Brunswick Salary Plans (based on the actuarial valuations as at April 28, 2010), which has been accepted by the Monitor for distribution purposes. As a result, it is expected that FSCO will withdraw its duplicate claim for \$3.1 million. In addition CEP have filed a Dispute Notice with respect to the NB Hourly Plan and the Quebec Thurso Hourly Plan, the votes of which have been recorded by the Monitor pursuant to paragraph 26 of the Meetings Order, at the values filed by the pension plan administrator.											
(d) The Unresolved Dispute Notices relate to (i) MGP's unsecured claim of \$26.7 million, a hearing in respect of this claim is expected to be occur by March 31, 2011; (ii) CEP claim of \$1.4 million relating to post-retirement benefits for Thurso employees; (iii) SCEP claim of \$751K, relating to grievances. A decision was rendered by the Labour Arbitrator on January 4, 2011 in respect of the two CEP Quebec claims. This decision only determined that the claims may properly be asserted against the Applicants. The decision did not determine the quantum of the claim, hence the disputes remain unresolved; and (iv) a dispute with Syndicate des Communications for \$528K, which is still being reviewed by the Applicants and the Monitor.											

46. As of the date of the filing of this report, there were six claims having a value of approximately \$39.0 million that remain unresolved, comprised of:
- a) four disallowed claims valued at \$29.5 million where a Notice of Dispute has been filed by the creditor and the disputes remain unresolved; and
 - b) two claims totalling \$9.4 million that are still considered pending, subject to completion of the claims process necessary to admit the claim on the basis of a settlement just reached by the Applicants and the counsel for the SERP claimants.
47. As of the date of the filing of this report, there were also six duplicate claims totalling \$140.5 million where a Notice of Dispute has been filed by the creditor and the disputes remain unresolved.

Disputed Claims

48. The outstanding disputed claims consist of one trade claim and three employee related claims and are being addressed as follows:
- a) one claim totalling \$26.8 million (from MGP Papier) is to be resolved by the Court. The Monitor understands that a court hearing is expected to occur before March 31, 2011 to address this claim;
 - b) two claims involving CEP in Quebec totalling \$2.2 million were put before a labour arbitrator by agreement of the parties in December 2010. The Monitor understands that a decision was rendered by the Labour Arbitrator on January 4, 2011. This decision only determined that the claims may be asserted against the Applicants, but not the quantum of these claims. Hence, they remain as disputed claims; and

- c) one claim totalling \$528,000, which is still being reviewed by the Applicants and the Monitor.

Pending Claims

- 49. The two pending claims outstanding are in respect of the Applicants' supplemental employee retirement plans ("SERPs"). The Monitor has been advised that the Applicants and Counsel to the SERP claimants have agreed to settle these claims. The quantum of the allowed SERP claims is expected to be finalized prior to the Implementation of the Plan.

Duplicate Claims

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

I. MONITOR'S RECOMMENDATION

- 51. The Monitor supports the Applicants' motion for an order sanctioning the Amended Plan and believes Court sanction is in the best interest of the Affected Creditors. The Monitor believes the Applicants have acted and continue to act in good faith and with due diligence. Further, the Monitor continues to believe that the Amended Plan is fair and reasonable in the circumstances and provides for a higher recovery for Affected Creditors than is otherwise available.
- 52. Accordingly, the Monitor recommends that the Court sanction the Amended Plan that was approved by the Affected Creditors and authorize the Applicants to proceed with the implementation of the Amended Plan.

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

Dated at Toronto, Ontario this 9th day of February 2011.

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

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

John McKenna
Senior Vice President

Appendix A

THIS ADMINISTRATION AGREEMENT is made the _____ day of February, 2011.

AMONG:

BROOKFIELD ASSET MANAGEMENT INC.

- and -

BROOKFIELD US CORPORATION (the “Plan Sponsor”)

- and -

FRASER PAPERS INC. (“FPI”)

- and -

FRASER PAPERS LIMITED (“Fraser Madawaska”)

- and -

FPS CANADA INC. (“FPS Canada”)

- and -

FRASER PAPERS HOLDINGS INC. (“FPHI”)

- and -

FRASER TIMBER LIMITED (“FTL”)

- and -

FRASER N.H. LLC (“FNHL”)

- and -

THE TRUST CREATED BY THE NB HOURLY TRUST AGREEMENT
 (“NB HOURLY TRUST”)

- and -

THE TRUST CREATED BY THE NB SALARIED TRUST AGREEMENT
 (“NB SALARIED TRUST”)

- and -

CREDITOR TRUST FOR CERTAIN AFFECTED CREDITORS OF FRASER
 PAPERS INC. AND ITS AFFILIATES (“CREDITOR TRUST”)

- and -

**PENSION BENEFIT GUARANTY CORPORATION AS STATUTORY TRUSTEE
OF THE PENSION PLAN FOR THE ELIGIBLE EMPLOYEES OF FRASER
PAPER LIMITED (“PBGC”)**

RECITALS:

- A. On June 18, 2009, FPI, Fraser Madawaska, FPS Canada, FPHI, FTL and FNHL (the “**Applicants**”) commenced proceedings (the “**CCAA Proceedings**”) in the Ontario Superior Court of Justice (Commercial List) under the *Companies’ Creditors Arrangement Act* (Canada), R.S.C. 1985 c. C-36, as amended, pursuant to which, *inter alia*, PricewaterhouseCoopers Inc. was appointed as monitor;
- B. On June 19, 2009, the Applicants sought and obtained recognition and provisional relief in an ancillary proceeding (the “**Bankruptcy Case**”) pursuant to Chapter 15 of Title 11 of the *United States Code* 11 U.S.C. 101-1532C, as amended, in the United States Bankruptcy Court for the District of Delaware;
- C. The Applicants have proposed the Amended Consolidated Plan of Compromise and Arrangement dated January 27, 2011 pursuant to the *Companies’ Creditors Arrangement Act* (Canada) concerning, affecting and involving the Applicants (as may be further amended, modified or restated from time to time, the “**Plan**”) on a substantively consolidated basis in the CCAA Proceedings, to be recognized and ratified in the Bankruptcy Case;
- D. In conjunction with the Plan, the Applicants and Brookfield Asset Management Inc. and/or such other person as it may designate (the “**Plan Sponsor**”) entered into a transaction agreement dated as of November 25, 2010, as amended (as amended by the First Amendment to Transaction Agreement dated as of February __, 2011, and as may be further amended, modified or restated from time to time, the “**Transaction Agreement**”);
- E. Section 4.3 of the Transaction Agreement sets out the contingent reimbursement obligation of the Plan Sponsor and requires the parties to enter into a further agreement detailing the administration of such obligations; and
- F. The parties have agreed to administer the contingent reimbursement obligations set out in Section. 4.3 of the Transaction Agreement as set out herein.

NOW THEREFORE in consideration of the promises and the mutual covenants and agreements herein contained, and other good and valuable consideration, the sufficiency of which is hereby acknowledged by each of the parties to this Agreement, the parties agree as follows:

1. Definitions

1.1 Capitalized terms used but not otherwise defined herein shall have their respective meanings ascribed thereto in the Plan and the Transaction Agreement, as applicable.

1.2 The term “Adjusted Brookfield Letters of Credit” shall mean any replacement letters of credit or guarantee issued to replace the Brookfield Letters of Credit from time to time as a result

of any authorized reduction in the amounts required to be posted to secure the Workers Compensation Obligations.

1.3 The term “Beneficiaries” shall mean, collectively, the NB Hourly Trust, the NB Salaried Trust, the Creditor Trust, and PBGC.

2. Reporting Requirements

2.1 The parties hereto hereby acknowledge, agree and confirm that:

2.1.1 the Plan Sponsor shall provide an annual report (the “Reporting Period”) on the Actual WCB/LC Liability to the Trustees of each of the NB Hourly Trust, NB Salaried Trust and the Creditor Trust (collectively, the “Trustees”) and PBGC within thirty (30) days of the annual review of the required amount of the Brookfield Letters of Credit or Adjusted Brookfield Letters of Credit, as the case may be, by [Old Republic Insurance Company] and [AIG] (the “Insurers”);

2.1.2 the annual report contemplated in section 2.1.1 hereof shall include, among other things, the estimated Workers Compensation Obligations that are outstanding, details regarding any offers, agreements or arrangements involving the Insurers in respect of the Brookfield Letters of Credit, the Adjusted Brookfield Letters of Credit and the Workers Compensation Obligations, as the case may be, and a summary of the receipts and disbursements relating to the administration of the obligations under this Agreement; and

2.1.3 the Plan Sponsor shall provide additional reports to the Trustees and PBGC if any material event occurs that could be reasonably expected to affect the obligations under this Agreement, as determined by the Plan Sponsor, acting reasonably, promptly upon the occurrence of such material event.

3. Decision Making

3.1 The parties hereto hereby acknowledge, agree and confirm that:

3.1.1 Subject to section 3.1.2 hereof, the Plan Sponsor, acting reasonably, has discretion to settle all Workers Compensation Obligations secured by the Brookfield Letters of Credit or Adjusted Brookfield Letters of Credit, as the case may be, provided that the Plan Sponsor shall consult with the Trustees and PBGC with respect to each settlement, provide any relevant information and materials relating to each settlement, as may be reasonably requested by any of the Trustees and PBGC, and that no settlement shall be entered into until thirty (30) days after the Trustees and PBGC are notified in writing of such proposed settlement (or such lesser period as the Trustees and PBGC may agree to);

3.1.2 In the event that any of the Trustees or PBGC object in writing to the Plan Sponsor to a proposed settlement under section 3.1.1 hereof and within the thirty (30) day notice period relating thereto (the date of delivery of such notice to the Plan Sponsor being the “Settlement Objection Date”), the Plan Sponsor and the applicable Trustee(s) or PBGC, each acting reasonably, shall attempt to mutually resolve such objection. If the Plan Sponsor and the applicable Trustee(s) or PBGC are unable to resolve such objection

within fifteen (15) days of the Settlement Objection Date, either of such parties may apply to a judge of the Ontario Superior Court of Justice to resolve the matter;

3.1.3 Settlements entered into in accordance with this Agreement shall be binding on the parties hereto for all purposes, including, but without limitation, for the purpose of determining the reimbursement obligation pursuant to this Agreement and section 4.3 of the Transaction Agreement; and

3.1.4 The Plan Sponsor shall take commercially reasonable steps to settle all Workers Compensation Obligations on a timely basis.

4. **Reimbursement Obligation**

4.1 Subject to sections 4.2 and 4.3 hereof, if the Brookfield Letters of Credit or Adjusted Brookfield Letters of Credit, as the case may be, are reduced during the Reporting Period, the Plan Sponsor shall make a cash reimbursement payment to each of the Trustees on behalf of the respective Trusts and PBGC in an amount equal to their respective *pro rata* share of the amount by which the Brookfield Letters of Credit or Adjusted Brookfield Letters of Credit, as the case may be, have been reduced during the Reporting Period, less any payments, insurance deductibles, reasonable accrued costs associated with the Brookfield Letters of Credit and Adjusted Brookfield Letters of Credit, out-of-pocket costs and expenses and other third party out-of-pocket amounts paid or otherwise disbursed to settle Actual WCB/LC Liabilities during the Reporting Period (the “**Reimbursement Amount**”).

4.2 The Reimbursement Amount shall be paid by the Plan Sponsor to the Trustees and PBGC within sixty (60) days of the applicable reduction of the Brookfield Letters of Credit or Adjusted Brookfield Letters of Credit, as the case may be.

4.3 Pursuant to section 4.3.1 of the Transaction Agreement, the Plan Sponsor shall deliver to the Applicants an irrevocable prepayment in the amount of \$500,000 (the “**Irrevocable Prepayment**”) in furtherance of, and in satisfaction of up to \$500,000 of any obligations it may at any time have to make cash reimbursement payments to or for the benefit of the Applicants pursuant to this Agreement. For greater certainty, the Irrevocable Prepayment: (a) shall satisfy the first \$500,000 of obligations that the Plan Sponsor may have, if any, to make cash reimbursement payments under this Agreement so that the first \$500,000 reduction in the Brookfield Letters of Credit or the Adjusted Brookfield Letters of Credit will not give rise to or result in a cash reimbursement payment under section 4.1 of this Agreement; and (b) shall be made irrevocably and may be retained by the Applicants even if the Plan Sponsor’s aggregate cash reimbursement payment obligations under this Agreement amount to less than \$500,000.

4.4 On Closing, the Applicants and the Beneficiaries shall provide an irrevocable direction to the Plan Sponsor directing the Plan Sponsor as to how further distributions pursuant to this section 4, if any, shall be apportioned between the Beneficiaries.

5. **General**

5.1 This Agreement shall enure to the benefit of and be binding upon each of the parties and their respective successors (including any successor by reason of amalgamation) heirs, personal representatives and permitted assigns, including any replacement Trustees.

5.2 This Agreement may not be assigned by the Parties without the prior written consent of the other, which consent shall not be unreasonably withheld; provided, however, that the Plan Sponsor may, without the consent of the Applicants, assign and delegate its rights under this Agreement to one or more of the Plan Sponsor's Affiliates, and in interpreting this Agreement any such assignee(s) shall be considered the "Plan Sponsor".

5.3 No amendment, supplement, modification, waiver or termination of this Agreement and, unless otherwise specified, no consent or approval by any party, shall be binding unless executed in writing by the party to be bound thereby.

5.4 This Agreement constitutes the entire agreement between the parties pertaining to the subject matter of this Agreement. There are no warranties, conditions, or representations (including any that may be implied by statute) and there are no agreements in connection with such subject matter except as specifically set forth or referred to in this Agreement. No reliance is placed on any warranty, representation, opinion, advice or assertion of fact made either prior to, contemporaneous with, or after entering into this Agreement, or any amendment or supplement to it, by any party to this Agreement or its directors, officers, employees or agents, to any other party to this Agreement or its directors, officers, employees or agents, except to the extent that the same has been reduced to writing and included as a term of this Agreement, and none of the parties to this Agreement has been induced to enter into this Agreement or any amendment or supplement to it by reason of any such warranty, representation, opinion, advice or assertion of fact. Accordingly, there shall be no liability, either in tort, contract or otherwise, assessed in relation to any such warranty, representation, opinion, advice or assertion of fact, except to the extent contemplated above.

5.5 Each of the parties hereto shall promptly do, make, execute or deliver, or cause to be done, made, executed or delivered, all such further acts, documents and things as the other party to this Agreement may reasonably require from time to time for the purpose of giving effect to this Agreement and shall use reasonable efforts and take all such steps as may be reasonably within its power to implement to their full extent the provisions of this Agreement.

5.6 Any notice, direction, certificate, consent, determination or other communication required or permitted to be given or made under this Agreement shall be in writing and shall be effectively given and made if (i) delivered personally, (ii) sent by prepaid courier service or mail, or (iii) sent prepaid by fax or other means of electronic communication, in each case to the applicable address set out below:

(a) if to the Plan Sponsor, to:

c/o Brookfield Asset Management Inc.
181 Bay Street, Suite 300
Brookfield Place
Toronto, Ontario M5J 2T3

Attention: Sam Pollock/Justin Beber
Email: spollock@brookfield.com/jbeber@brookfield.com
Fax No.: 416.365.9642

with a copy to:

Torys LLP

Suite 3000, 79 Wellington Street West
Toronto Dominion Centre
Toronto, Ontario M5K 1N2

Attention: Tony DeMarinis/Natasha De Cicco
Email: tdemarinis@torys.com/ndecicco@torys.com
Fax No.: 416.865.7380

(b) if to the Applicants, to:

c/o Fraser Papers Inc.
181 Bay Street, Suite 200
Brookfield Place
Toronto, Ontario M5J 2T3

Attention: Glen McMillan
Email: gmcmillan@toronto.fraserpapers.com
Fax No.: 416.359.8606

(c) if to NB Hourly Trust Trustees:

Doris Lavoie
295 chemin des Lavoie
St-Basile, NB E3V 1C3

Jean Clavette
7 Avenue Ordonnance
Edmundston, NB E3V 1C3

Mario Thériault
81 Boul. de la Capitale
Edmundston, NB E3V 5A2

with a copy to:

■

(d) if to NB Salaried Trust Trustees:

Don Corey
149 Bellevue Street
Edmundston, NB E3V 2V2

Rino Girard
56 Aqueduc Street
Jacques, NB E7B 1R2

Mark Fitzherbert
1330 Route 109
Red Rapids, NB E7H 4H4

with a copy to:



(e) if to Creditor Trust Trustee:

PricewaterhouseCoopers Inc.
Suite 3000, Box 82
Royal Trust Tower, TD Centre
77 King St. West
Toronto, ON M5K 1G8

Attention: John McKenna
Email: john.p.mckenna@ca.pwc.com
Fax: No. 416.814.3210

with a copy to:

Goodmans LLP
333 Bay Street
Suite 3400
Toronto, ON M5H 2S7

Attention: Robert Chadwick/Derek Bulas
Email: rchadwick@goodmans.ca/dbulas@goodmans.ca
Facsimile: 416.979.1234

(f) if to PBGC:

Pension Benefit Guaranty Corporation
1200 King Street NW, Suite 675
Washington, DC 20005

Attention: Damon Martin
Email: martin.damon@pbgc.gov
Fax No.: 202.326.4069

Any such communication so given or made shall be deemed to have been given or made and to have been received on the day of delivery if delivered, or on the day of faxing or sending by other means of recorded electronic communication, provided that such day in either event is a Business Day and the communication is so delivered, faxed or sent before 4:30 p.m. (Toronto time) on such day. Otherwise, such communication shall be deemed to have been given and made and to have been received on the next following Business Day. Any such communication sent by mail shall be deemed to have been given and made and to have been received on the fifth Business Day following the mailing thereof; provided however that no such communication shall be

mailed during any actual or apprehended disruption of postal services. Any such communication given or made in any other manner shall be deemed to have been given or made and to have been received only upon actual receipt.

5.7 This Agreement shall be governed and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable herein, and shall be deemed in all respects to be an Ontario contract and the parties hereby attorn to the non-exclusive jurisdiction of the courts of the Province of Ontario with respect to all matters arising under or by virtue of this Agreement.

5.8 If there is any inconsistency or conflict between the provisions of this Agreement and the provisions of the Transaction Agreement, the provisions of the Transaction Agreement shall prevail. For greater certainty, the Transaction Agreement is solely for the benefit of the parties thereto and the cross-referencing of the Transaction Agreement herein does not give the Trusts or the Trustees any rights under the Transaction Agreement, except as expressly set out herein.

5.9 This Agreement may be executed in several counterparts and delivered by facsimile or other means of electronic communication, each of which shall be deemed to be an original, but all such counterparts together shall constitute one and the same instrument.

[Remainder of Page Intentionally Left Blank; Signature Page to Follow]

IN WITNESS WHEREOF the parties have executed this Administration Agreement as of the date and year first written above.

**BROOKFIELD ASSET MANAGEMENT
INC.**

By: _____
Name:
Title:

BROOKFIELD US CORPORATION

By: _____
Name:
Title:

IN WITNESS WHEREOF the parties have executed this Administration Agreement as of the date and year first written above.

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

By:

Name: Glen McMillan
Title: Secretary

FRASER PAPERS INC.

By:

Name: Glen McMillan
Title: Chief Restructuring Officer

IN WITNESS WHEREOF the parties have executed this Administration Agreement as of the date and year first written above.

Witness

Doris Lavoie, as Trustee of the Trust created by the NB Hourly Trust Agreement

Witness

Jean Clavette, as Trustee of the Trust created by the NB Hourly Trust Agreement

Witness

Mario Theriault, as Trustee of the Trust created by the NB Hourly Trust Agreement

IN WITNESS WHEREOF the parties have executed this Administration Agreement as of the date and year first written above.

Witness

Don Corey, as Trustee of the Trust created by the NB Salaried Trust Agreement

Witness

Rino Girard, as Trustee of the Trust created by the NB Salaried Trust Agreement

Witness

Mark Fitzherbert, as Trustee of the Trust created by the NB Salaried Trust Agreement

IN WITNESS WHEREOF the parties have executed this Administration Agreement as of the date and year first written above.

PRICEWATERHOUSECOOPERS INC.,
solely in its capacity as Trustee of the Creditor
Trust for Certain Affected Creditors of Fraser
Papers Inc. and its Affiliates

By:

Name:
Title:

IN WITNESS WHEREOF the parties have executed this Administration Agreement as of the date and year first written above.

**PENSION BENEFIT GUARANTY
CORPORATION AS STATUTORY
TRUSTEE OF THE PENSION PLAN FOR
THE ELIGIBLE EMPLOYEES OF
FRASER PAPER LIMITED**

By:

Name:
Title:

By:

Name:
Title: