

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

**FRASER PAPERS INC. /PAPIERS FRASER INC. and
FPS CANADA INC**

MONITOR'S NINETEENTH REPORT TO THE COURT
April 19, 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. AND FPS CANADA INC.

Applicants

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

INTRODUCTION

1. The Applicants have brought a motion returnable on April 20, 2011 for an order (i) extending the existing stay of proceedings to the earlier of: (a) May 31, 2011; and (b) the CCAA Termination Date (as defined in the Sanction Order); and (ii) authorizing and directing the Chief Restructuring Officer ("CRO") to terminate certain benefit plans.
2. The purpose of this, the Monitor's Nineteenth Report, is to provide stakeholders and the Court with information pertaining to the relief sought by the Applicants and:
 - a) the closing of the Brookfield Transaction;
 - b) the interim distribution to creditors;
 - c) the status of the CCAA process;
 - d) the Applicants' actual receipts and disbursements for the twelve-week period from January 17 to April 10, 2011;

- e) the Applicants' cash flow forecast for the eight week period from April 11 to May 31, 2011; and
 - f) the Monitor's recommendations as to the relief sought by the Applicants.
- 3. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. Dollars.
 - 4. Capitalized terms used herein and not otherwise defined herein are as defined in the Amended Plan, the Transaction Agreement, the Sanction Order and the Affidavit of Glen McMillan sworn April 15, 2011 (the "**McMillan April Affidavit**"), as applicable. This report should be read in conjunction with the McMillan April Affidavit as certain information contained therein has not been reproduced in this report to avoid duplication.
 - 5. The Monitor has based this report, in part, on information it has obtained from the Applicants, but has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of such information contained in this report.

A. CLOSING OF THE BROOKFIELD TRANSACTION

- 6. On February 15, 2011, the Applicants implemented their Amended Plan, which included the sale of the Applicants' remaining assets in the US to an affiliate of Brookfield and received gross proceeds of approximately \$14.7 million, including, pursuant to the Transaction Agreement, a Working Capital Adjustment in the amount of approximately \$2.3 million.
- 7. Following repayment of the DIP balance of \$10.4 million and approximately \$607,000 in disbursements, as detailed below, the Applicants realized net proceeds of approximately \$3.7 million from the Brookfield Transaction. The disbursements of approximately \$607,000 from the Brookfield Transaction included the following:

- a) CAD\$422,400 paid to NB Hourly Pension 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 (as more fully explained in the Monitor's 17th Report);
- b) CAD\$100,000 to counsel for the NB Hourly Pension Plan (Pink Larkin), pursuant to the terms of the Support Agreement dated January 27, 2011 that was entered into among the Applicants and certain stakeholders in support of the Amended Plan to fund the costs of securing the dismissal of any claim by a Non-Released Party against a Released party (as more fully explained in the Monitor's 17th Report);
- c) CAD\$50,000 in respect of an interim distribution to the Unsecured Creditors Trust; and
- d) CAD\$27,500 in settlement of two secured lien claims.

B. INTERIM DISTRIBUTION TO CREDITORS

- 8. Pursuant to the terms of the Amended Plan, on the Implementation Payment Date (February 25, 2010), the Applicants made an interim distribution to Affected Creditors in the amount of approximately \$1.04 million consisting of the following:
 - a) 1143 individual Implementation Payments to Proven Creditors in the amount of the greater of the quantum of the creditor's claim and \$500. These payments totalled approximately \$543,500; and
 - b) a net interim distribution in the amount of \$500,000 to the various Creditor Trusts, PBGC and a Reserve amount (re potential distributions in respect of unresolved claims) as follows:

Fraser Papers Inc. Et al. - US \$550K Interim Distribution Analysis				
Trusts/PGBC	%	Amount To Be Distributed	Less Advance Already Made	Net Interim Distribution
NB Hourly Trust	28.50%	\$ 156,917.27	\$ -	\$ 156,917.27
NB Salary Trust	6.28%	\$ 34,558.91	\$ -	\$ 34,558.91
PBGC	29.11%	\$ 160,266.64	\$ -	\$ 160,266.64
Creditor Trust	24.47%	\$ 134,745.29	\$ 50,580.00	\$ 84,165.29
Sub-Total	88.36%			
Reserve	11.64%	\$ 64,091.89	\$ -	\$ 64,091.89
TOTAL	100.00%	\$ 550,580.00	\$ 50,580.00	\$ 500,000.00

C. STATUS OF THE CCAA PROCESS

9. The Applicants have made good progress in finalizing the CCAA Proceedings. However, the Applicants have advised the Monitor that certain matters will not be resolved or finalized prior to April 30, 2011 and, hence, the Applicants have requested an extension to the stay of proceedings to the earlier of May 31, 2011 and the CCAA Termination Date to conclude the CCAA Proceedings. The outstanding matters to be completed include the following:

- a) **Uncollected Accounts Receivables.** The Applicants have indicated in their cash flow forecast that outstanding Accounts Receivables in the amount of approximately \$2.3 million will not be collected prior to April 30, 2011.

These accounts receivables include: (i) the refund from a Health and Welfare Trust in the amount of approximately CAD\$1.5 million related to the Applicants' self-funded long-term disability program (as discussed in the April McMillan Affidavit); (ii) the refund of a deposit from the Applicants' benefits administrator in the amount of approximately CAD\$200,000; (iii) various GST and HST refunds in the amount of approximately CAD\$400,000; (iv) amounts receivable related to the Federal Government's Pulp and Paper Green Transformation

Program in the amount of CAD\$115,000; and (v) the collection of the remaining trade receivables from the Gorham mill.

- b) **Unresolved Claims.** Approximately \$29.5 million in disputed claims remain unresolved. The Monitor understands that a hearing is scheduled on April 20, 2011 in respect of the MGP claim in the amount of \$26.7 million.

Three disputed employee claims in the amount of \$2.8 million, which the Monitor has reported on in previous reports, remain unresolved; however these claims are expected to be resolved prior to May 31, 2011.

In addition, the proofs of claim in respect of the Quebec pension plans remain unresolved as the plan administrators under the Quebec Hourly and Quebec Salaried Pension Plans have not filed their final proofs of claims in respect of their pension claims under these plans. However, the Monitor has been advised by these plan administrators that final proofs of claim will be filed imminently.

- c) **Outstanding Tax Returns.** The Monitor understands that the Applicants have filed their 2009 federal and provincial income tax returns. The Monitor also understands that the Applicants are currently preparing their 2010 and final income tax returns but that they will not be completed prior to April 30, 2011. These filings need to be completed prior to the finalization of the CCAA Proceedings.

D. VARIANCE ANALYSIS FOR THE PERIOD JANUARY 17 TO APRIL 10, 2011

10. As shown in the table below, the Applicants' actual net cash flow for the twelve week period from January 17 to April 10, 2011 was a net cash flow after DIP repayment of \$2.4 million, approximately \$1.5 million better than the forecast.

Comparison of Adjusted Forecast to Actual Cash Flow For the Period from January 17, 2011 to April 10, 2011			
(US \$000)	Actual	Forecast	Variance
			Fav/(Unfav)
Receipts			
Collection of Trade Accounts Receivable & Other Receivables	4,766	3,908	858
Proceeds from the Sale of the Applicants' US Assets	14,730	13,429	1,301
Total Receipts	19,497	17,337	2,159
Disbursements:			
Raw Material Costs	3,517	3,874	357
Production Overhead Costs	525	283	(242)
Selling, General & Admin Costs	182	185	3
Employee Costs	884	843	(41)
DIP Interest & Fees	33	80	47
Litigation amount	101	100	(1)
Pension payments	427	422	(5)
Implementation Payment	555	580	25
Other	3,139	3,670	531
Cash Sold Pursuant to Sale of Applicants' US Assets	969	-	(969)
Total Disbursements	10,334	10,038	(296)
Net Cash Flow	9,163	7,300	1,864
Net BAM US DIP Advances/(Repayments) Prior to Closing of Sale of Applicants' US Assets	3,169	2,045	1,124
Final BAM DIP Repayment on Closing of Sale of Applicants' US Assets	(9,917)	(8,461)	(1,456)
Net Cash Flow after DIP Repayment	2,415	884	1,531
Opening Cash	725	1,227	(502)
Interim Distribution to Creditor Trusts	(551)	0	(551)
Closing Cash balance	2,589	2,111	478
* The DIP repayment is net of a \$500,000 reduction in outstanding letters of credit.			

11. The primary reasons for the variances are as follows:

- a) \$2.2 million favourable variance in cash receipts principally due to:
- i) Collection of Trade Accounts Receivables was approximately \$500,000 less than forecasted due to the timing of sales, specifically a delay in the delivery of goods due to inclement weather;

- ii) Collection of Other Accounts Receivables were approximately \$1.4 million higher than expected, due to a \$1.2 million recovery of an insurance premium that was not projected in the forecast and a number of other smaller refunds and recoveries; and
 - iii) Proceeds from the sale of the Applicants' remaining assets in the US were approximately \$1.3 million higher than projected due to a higher than projected working capital adjustment on closing.
- b) a \$300,000 unfavourable variance in disbursements principally due to:
- i) Cash of \$969,000 that was sold which was not forecast (which partially offsets the \$1.3 million working capital variance noted above);
 - ii) a \$242,000 unfavourable variance in Production Overhead Costs, due to higher than projected paper wrap, supplies and fuel purchases;
 - iii) A \$357,000 favourable variance in Raw Material Costs due to the timing of log deliveries; and
 - iv) A \$531,000 favourable variance in Other due to timing differences in respect of payment of professional fees.
- c) a \$502,000 unfavourable variance in the Opening Cash Balance as the Opening Cash Balance in the CFF did not include outstanding cheques; and
- d) a \$551,000 unfavourable variance in Interim Distribution to Creditors, which was not forecast.

E. THE APPLICANTS' CASH FLOW FORECAST FOR THE EIGHT WEEK PERIOD APRIL 11 TO MAY 31, 2011

12. The Applicants have requested an extension of the stay of proceedings from April 30, 2011 to the earlier of May 31, 2011 and the CCAA Termination Date (which is defined in the Sanction Order and occurs upon the filing of a certificate by the Monitor certifying that, among other things, the Final Determination Date under the Amended Plan has occurred).
13. In support of this request, the Applicants have prepared an eight-week cash flow forecast (the “**Eight Week CFF**”), which covers the period from April 11, 2011 (the latest date actual results are available for) to May 31, 2011. An updated Eight Week CFF is attached as Appendix A to this report (the “**Updated Eight Week CFF**”), which supersedes the Eight Week CFF filed with the McMillan April Affidavit. The Updated Eight Week CFF reflects the inclusion of a \$380,000 disbursement in respect of the Applicants purchasing long tail fiduciary insurance for its directors, officers and others.
14. The Updated Eight Week CFF assumes the collection of outstanding receivables amounts (as described above) and the payment of salaries, administrative costs and professional fees related to the completion of the CCAA Proceedings.
15. The Updated Eight Week CFF forecasts that the Applicants will generate a net cash inflow of approximately \$762,000 during the period, comprised of total receipts of approximately \$2.3 million and total disbursements of approximately \$1.6 million.
16. The remaining cash balance at the completion of the CCAA Proceedings, forecasted to be \$3.3 million, will then be available for distribution to the three Creditor Trusts and PBGC.

F. TERMINATION OF BENEFIT PLANS

17. Each of the DC Plan, the SERP, the Directors Deferred SOP, the Management Deferred SOP, the SOP and the HWT (collectively, the “**Benefit Plans**”) contemplate that they may be terminated by the board of directors of the Applicant to which the applicable plan relates. Since all of the directors of the Applicants resigned on the Plan Implementation Date, the Applicants are seeking the authorization and direction of the Court to allow the CRO to terminate the Benefit Plans.
18. As outlined in the McMillan April Affidavit, the termination of each of the DC Plan, the SERP, the Directors Deferred SOP, the Management Deferred SOP and the SOP will not give rise to any Restructuring Claims in the CCAA Proceedings.
19. In addition, as outlined in the McMillan April Affidavit, there are no further benefits payable from the HWT, as the LTD obligations payable from the HWT are secured by an annuity under a paid up insurance policy that was entered into by the Applicants with Great West Life. The Monitor understands that the trustees are in the process of conducting an audit of the funds remaining in the HWT following the purchase of the annuity for LTD obligations, and that any surplus funds (following the payment of any fees and expenses) will be returned to the Applicants on termination of the HWT and available to form part of the Distribution Pool under the Amended Plan. As noted above, the Updated Eight Week CFF includes a receipt of approximately \$1.58 million in this respect.

G. MONITOR'S RECOMMENDATIONS

20. The Monitor believes that the Applicants have acted and are acting in good faith and that circumstances exist that make an extension of the stay of proceedings and termination of the Benefit Plans appropriate. The Monitor therefore recommends that the Applicants' motion for an order extending the existing stay of proceedings and termination of the Benefit Plans be granted.

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

Dated at Toronto, Ontario this 19th day of April 2011.

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



John McKenna
Senior Vice President

Appendix A

Eight-week Cash Flow Forecast

For the Period April 11 to May 30, 2011

Fraser Paper Inc.
8 Week Cash Flow Forecast
USD (in 000's)

	1	2	3	4	5	6	7	8	
	April	April	April	May	May	May	May	May	Total
	Fcast	Fcast	Fcast	Fcast	Fcast	Fcast	Fcast	Fcast	Fcast
Week Beginning	4/11	4/18	4/25	5/2	5/9	5/16	5/23	5/30	
Receipts									
Collection of Accounts Receivable	0	0	22	0	0	0	0	120	142
Health and Welfare Trust (HWT) Refund	0	0	0	0	0	0	1,586	0	1,586
GST/HST Refunds	0	0	0	250	156	0	0	0	406
Collection of other Deposits	0	0	0	0	0	210	0	0	210
Total Receipts	0	0	22	250	156	210	1,586	120	2,344
Disbursements:									
Raw Material Costs	0	0	0	0	0	0	0	0	0
Liability Insurance Premiums	0	0	380	0	0	0	0	0	380
Selling, General & Admin Costs	194	236	52	57	42	21	239	220	1,061
Employee Costs	2	14	2	14	2	14	2	53	103
Payments to Trusts	0	0	30	0	0	0	0	0	30
Bank Charges	0	0	0	4	0	0	0	4	8
Other	0	0	0	0	0	0	0	0	0
Total Disbursements	196	250	464	75	44	35	241	277	1,582
Net Cash Flow	(196)	(250)	(442)	175	112	175	1,345	(157)	762
Opening Cash Balance	2,577	2,381	2,131	1,689	1,864	1,976	2,151	3,496	2,577
Net Cash Flow	(196)	(250)	(442)	175	112	175	1,345	(157)	762
Closing Cash Balance	2,381	2,131	1,689	1,864	1,976	2,151	3,496	3,339	3,339

This Cash Flow Forecast must be read in conjunction with the notes and assumptions attached hereto.

Fraser Paper Inc.

8 Week Cash Flow Forecast

USD (in 000's)

Notes & Assumptions

- 1 The US businesses were sold pursuant to the Transaction Agreement on February 15, 2011, hence the cash flow forecast reflects only the activities of Fraser Papers Inc.
- 2 Collection of Accounts Receivable includes the collection of final trade receivable receipts and amounts owing from Twin Rivers Paper Company for work which is refundable under the Pulp and Paper Green Transformation Program.
- 3 HWT Amount represents excess funds that will be received by the Applicant once all benefit obligations of the Fraser Papers Inc. Health and Welfare Trust have been met.
- 4 GST/HST refunds represent collection of amounts that are being withheld by the Canadian and Quebec governments pending the filing of the Applicant's 2009 income tax returns. These tax returns were recently filed with the respective governments.
- 5 Collection of other deposits represents amounts that were placed on deposit with the Applicant's benefits administrator. The benefits programs have wound down and the deposits are now being refunded to the Applicant.
- 6 Liability insurance premiums represents a six-year "tail" policy on the Applicants' fiduciary liability insurance.
- 7 Selling, General and Admin costs consist primarily of professional fees and administrative expenses.
- 8 Employee costs represent the salary, benefits and vacation pay of the Applicant's Chief Restructuring Officer.
- 9 Payments to Trusts represent payments of \$15,000 to each of the Pension Deficit Funding Trust for the Pension Plan for NB Hourly Employees of Fraser Papers Inc. and Pension Deficit Funding Trust for the Pension Plan for NB Salaried Employees of Fraser Papers Inc., pursuant to agreements reached with each of these trusts.
- 10 An exchange rate of \$0.96 USD/\$CAD is used throughout the eight week cash flow forecast.