

**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 OF SMURFIT-STONE
CONTAINER CANADA INC., STONE CONTAINER
FINANCE COMPANY OF CANADA II, 3083527 NOVA
SCOTIA COMPANY, MBI LIMITED/LIMITÉE, 639647
BRITISH COLUMBIA LTD., B.C. SHIPPER SUPPLIES
LTD., SPECIALTY CONTAINERS INC., FRANCOBEC
COMPANY AND 605681 N.B. INC.**

APPLICANTS

**TWELFTH REPORT OF THE MONITOR
DATED FEBRUARY 21, 2010**

INTRODUCTION

- 1) By Order of this Honourable Court dated January 26, 2009, as amended and restated (the "**Initial Order**"), Smurfit-Stone Container Canada Inc. ("**SSC Canada**"), Stone Container Finance Company of Canada II ("**Finance II**"), 3083527 Nova Scotia Company, MBI Limited/Limitée, 639647 British Columbia Ltd., B.C. Shipper Supplies Ltd., Specialty Containers Inc., Francobec Company and 605681 N.B. Inc. (collectively, the "**Applicants**") obtained protection from their creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). The Initial Order also granted relief in respect of certain affiliated partnerships of the Applicants, namely Smurfit-MBI and SLP Finance General Partnership (the "**Partnerships**" and, with the Applicants, the "**CCAA Entities**") and recognized the Chapter 11 Proceedings (as defined below) as a "foreign proceeding" as defined in section 267 of the *Bankruptcy*

and Insolvency Act, R.S.C., c. B-3, as amended (the “**BIA**”). The CCAA proceedings of the CCAA Entities are referred to herein as the “**CCAA Proceedings**”.

- 2) Pursuant to the Initial Order, Deloitte & Touche Inc. (“**Deloitte**”) was appointed monitor of the CCAA Entities as part of the CCAA Proceedings (the “**Monitor**”).
- 3) On January 26, 2009, SSCC (together with its direct and indirect subsidiaries, the “**Company**” or “**Smurfit-Stone**”) and certain of its direct and indirect subsidiaries, including Smurfit-Stone Container Enterprises Inc. (“**SSC U.S.**”) and the CCAA Entities (collectively, the “**U.S. Debtors**”), filed for bankruptcy protection pursuant to Chapter 11 of Title 11 of the *United States Code* (the “**Bankruptcy Code**”) in the United States Bankruptcy Court (the “**U.S. Court**”) for the district of Delaware (the “**Chapter 11 Proceedings**” and, with the CCAA Proceedings, the “**Proceedings**”). The Chapter 11 Proceedings in respect of the CCAA Entities have been recognized by this Honourable Court as a “foreign proceeding” under section 268 of the BIA. In addition, this Honourable Court recognized and gave full effect in Canada to the U.S. DIP Order in respect of the Partnerships under section 268 of the BIA. Information concerning the Chapter 11 Proceedings can be found at <http://chapter11.epiqsystems.com/smurfit> (the “**Epiq Website**”). Further information regarding Smurfit-Stone’s restructuring activities can be found on the Company’s website at <http://www.smurfit.com/content/company/restructuring/>. Smurfit-Stone has also established a hotline at 1-877-264-9638 for creditors and other interested parties to call with any questions or concerns in regards to the Company.
- 4) On March 12, 2009, this Honourable Court issued an Order approving a cross border insolvency protocol between the U.S. Court and this Honourable Court.
- 5) On June 25, 2009, this Honourable Court issued a Claims Procedure Order (the “**Claims Procedure Order**”) in respect of the CCAA Entities establishing a claims bar date of August 28, 2009 (the “**Claims Bar Date**”).
- 6) On August 17, 2009, this Honourable Court issued an Order approving the sale of approximately 962,204 acres of timberlands (“**Timberlands**”) in the Province of Québec

to Gestion Forestière du Saint-Maurice Inc., a subsidiary of Société Générale de Financement du Québec (“SGF”).

- 7) On November 6, 2009, this Honourable Court issued a Claims Determination Order (the “**Claims Determination Order**”) approving the procedures for the acceptance, revision, disallowance or consensual resolution of Proofs of Claims filed.
- 8) On December 1, 2009, this Honourable Court issued an Order approving the sale of a container plant property in Edmonton, Alberta (“**Edmonton Property**”) to General Realty Group Ltd., and the sale of a corrugated container facility in Whitby, Ontario (the “**Whitby Property**”) to Andreas Apostolopoulos in trust. As described later in this report, this transaction did not close.
- 9) On December 11, 2009, this Honourable Court made an Order dismissing the Motion made by Aurelius Capital Management, LP and Columbus Hill Capital Management, L.P. which sought, amongst other things, an Order: (i) declaring that Stikeman Elliott LLP cannot continue to act as counsel for Stone Container Finance Company of Canada (“**Finance II**”) or any successor in interest to Finance II and appointing new, independent counsel for Finance II; (ii) appointing counsel for Finance II for the purpose of the hearing of the Motion (the “**Characterization Motion**”) scheduled to be heard on December 11, 2009 to determine the characterization of the Loan Agreement between Finance II and Smurfit-Stone Container Canada, Inc. dated July 20, 2004; and (iii) adjourning the Characterization Motion to permit counsel appointed for Finance II to prepare for a hearing of the Characterization Motion and to consider whether the Characterization Motion should proceed by way of joint hearing of this Court and the U.S. Bankruptcy Court.
- 10) On December 23, 2009, this Honourable Court issued a Stay Extension Order which extended the stay provided for in the Initial Order in respect of the CCAA Entities until February 26, 2010.
- 11) On January 29, 2010, this Honourable Court issued an Order that the Finance II Intercompany Claim is not a debt provable in bankruptcy within the meaning of the

CCAA and that the Finance II Intercompany Claim does not rank pari passu with the unsecured debt claims against SSC Canada and is valued at \$0.

- 12) On February 10, 2010, this Honourable Court issued a Plan and Meeting Order which accepted the filing of the Joint Plan of Reorganization for Smurfit-Stone Container Corporation and its Debtor Subsidiaries and Plan of Compromise and Arrangement for Smurfit-Stone Container Canada Inc. and Affiliated Canadian Debtors (the “**Plan**”) and authorized and directed the CCAA Entities to convene a meeting of their Creditors to consider and vote on the Plan.
- 13) The Initial Order, together with certain other court documents, the previous reports of the Monitor (the “**Previous Reports**”), and the Notice to Creditors dated February 3, 2009, are posted on the Monitor’s website at www.deloitte.com/ca/smurfitstonecanada (the “**Monitor’s Website**”). The Monitor has also established a toll free number at 1-866-859-6954 for creditors and other interested parties to call with any questions or concerns in regards to the CCAA Proceedings.

PURPOSE

- 14) The purpose of this report (“**Twelfth Report**”) is to provide this Honourable Court with an update in respect of the following matters and to provide the Monitor’s recommendation with respect to the CCAA Entities’ pending request for an extension of the stay period to May 6, 2010:
 - i) ongoing operations of the CCAA Entities;
 - ii) Chapter 11 Proceedings;
 - iii) DIP Facility;
 - iv) critical suppliers and pre-CCAA expenses;
 - v) cash flow forecast and results relative to forecast;
 - vi) revised cash flow forecast;

- vii) restructuring efforts to date;
- viii) other matters; and
- ix) Monitor's recommendation.

- 15) Unless otherwise provided, capitalized terms not defined in this Twelfth Report are as defined in the Previous Reports or, if not defined therein, the Initial Order.

TERMS OF REFERENCE

- 16) In preparing this Twelfth Report, the Monitor has relied upon unaudited financial information, the Company's books and records, the financial information prepared by the Company and its advisors, and discussions with management, legal counsel and financial advisors of the Company. The Monitor has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this Twelfth Report.
- 17) Certain of the information referred to in this Twelfth Report consists of forecasts and/or projections. An examination or review of financial forecasts and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. Future oriented financial information referred to in this Twelfth Report was prepared by the Company and its advisors based on management's estimates and assumptions. Readers are cautioned that since forecasts are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the forecasts and, even if the assumptions materialize, the variations could be significant.
- 18) Unless otherwise noted, all dollar amounts contained in this Twelfth Report are expressed in U.S. dollars.

ONGOING OPERATIONS OF THE CCAA ENTITIES

- 19) Since January 26, 2009, the CCAA Entities have worked diligently to stabilize their operations and have maintained operations in the normal course during the CCAA Proceedings. Smurfit-Stone continues to sell products to its customers and has obtained the necessary supplies from its suppliers.
- 20) The Company, during the week of January 4, 2010, restarted production at its mill located in Matane, Quebec, which produces corrugated medium. The Matane mill was temporarily shut down prior to the date of the Initial Order and the Company began preparations to restart the mill in late 2009.

CHAPTER 11 PROCEEDINGS

- 21) The Tenth Report of the Monitor dated December 8, 2009 (the “**Tenth Report**”), reported on the significant orders issued by the U.S. Court from September 23, 2009, to December 8, 2009. Since then, the following significant orders have been issued by the U.S. Court which relate to the CCAA Entities:
 - i) on December 8, 2009, an Order Approving the Proposed Sale of De Minimis Assets relating to the sale of real property located at 891 Main Street, Bathurst New Brunswick;¹
 - ii) on December 8, 2009, an Order Approving the Proposed Sale of De Minimis Assets relating to the sale of real property located at 8705 24th Street, Edmonton, Alberta;²

¹ Paragraph 11(a) of the Initial Order states that the Applicants and Partnerships have the right to dispose of redundant or non material assets not exceeding \$2 million in any one transaction or \$25 million in the aggregate. The gross proceeds of sale for the New Brunswick mill are \$1.6 million, with net proceeds of \$783,000 collected during the week-ended January 15, 2010.

² This transaction was approved by Order of this Honourable Court on December 1, 2009.

- iii) on December 8, 2009, an Order Approving the Proposed Sale of De Minimis Assets relating to the sale of real property located at 220 Water Street, Whitby, Ontario;³
- iv) on December 16, 2009, an Order authorizing the rejection of certain executory contracts and unexpired leases, including a public warehouse agreement with a counterparty located in Hamilton, Ontario;
- v) on January 13, 2010, an Order authorizing the rejection of certain executory contracts and unexpired leases, to which the CCAA Entities were parties, relating to a supply agreement with a counterparty located in Montreal, Quebec;
- vi) on January 14, 2010, an Order extending the U.S. Debtors' exclusive period for filing a plan to May 21, 2010, and the U.S. Debtors' exclusive period for soliciting votes on a plan to July 21, 2010;
- vii) on January 14, 2010, an Order authorizing the U.S. Debtors to enter into an exit term loan facility engagement and arrangement letter and fee letters and to pay the associated fees and expenses and furnish related indemnities;
- viii) on January 29, 2010, an Order Approving the Disclosure Statement, establishing procedures for the solicitation and tabulation of votes to accept or reject the Plan, scheduling a hearing to consider the Plan and establishing notice and objection procedures;
- ix) on January 29, 2010, an Order authorizing the rejection of certain executory contracts and unexpired leases, to which the CCAA Entities were parties, including a uniform rental agreement in Hamilton, Ontario, a fibre supply agreement with a counterparty located in Montreal, Quebec, and a maintenance agreement with a counterparty located in Edmonton, Alberta;

³ This transaction was approved by Order of this Honourable Court on December 1, 2009.

- x) on February 4, 2010, an Order shortening the time for notice of the hearing to consider a motion for an order to allow the U.S. Debtors to enter into ABL exit facility commitment letter and fee letter, payment of fees and expenses, issuance of indemnities and authorizing the filing under seal of the fee letters; and,
 - xi) On February 16, 2010, two Orders authorizing the U.S. Debtors to enter into an exit Term Loan Facility, an ABL Credit Facility Commitment and Fee Letters, pay fees, expenses, indemnity and other amounts set out in the Term Loan Facility and ABL Credit Facility, ordering that indemnification, cost reimbursement and fee obligations pursuant to the Term Loan Facility be approved as an administrative expense claim against SSC U.S., and ordering that the ABL Fee Letters shall remain under U.S. Court seal and confidential.
- 22) Copies of the U.S. Orders and other documents in the Chapter 11 Proceedings are posted on the Epiq Website. A link to the Epiq Website is also available from the Monitor's Website.

DIP FACILITY

- 23) As outlined in the Previous Reports, the Company entered into the DIP Credit Agreement with the DIP Lenders. The DIP Facility provided for an aggregate amount of \$750.0 million in DIP financing for Smurfit-Stone under both revolving and term facilities.
- 24) On December 21, 2009, SSC Canada made a payment that settled the remaining outstanding balance of \$7.2 million on the Canadian term loan portion of the DIP Facility. There were no amounts outstanding under the Canadian revolving portion of the DIP Facility and there have been no additional borrowings by the CCAA Entities under the Canadian revolving portion of the DIP Facility.
- 25) The U.S. term loan and revolving portion of the DIP Facility were previously repaid in full and there were no additional borrowing by SSC U.S. under the DIP Facility prior to its expiration.
- 26) The DIP Facility expired on January 28, 2010 and was not extended.

- 27) The CCAA Entities continue to enjoy a good liquidity position. Including the cash on hand as of February 5, 2010, and the balance of the funds in the amount of \$909,000 to be received from the Timberlands sale expected to be collected during the week-ending March 5, 2010, the CCAA Entities are projecting surplus liquidity to fund future operations. However, as described later in this Twelfth Report, the Company is projecting a reduction in its cash position of \$38.5 million as at January 30, 2010 to a balance of \$17.7 million as at May 7, 2010, representing a decrease of approximately \$20.8 million.

CRITICAL SUPPLIERS AND PRE-CCAA EXPENSES

- 28) Paragraph 6(c)(i) of the Initial Order permits the CCAA Entities, with the consent of the Monitor and the DIP Agent, to pay for goods and services supplied to them prior to January 26, 2009, by railways, trucking companies and other carriers and customs brokers. For the interim period from November 14, 2009 to January 29, 2010, no further payment consents were requested. For the cumulative period from January 26, 2009 to January 29, 2010, the Monitor has consented to total payments of approximately \$1.7 million, all of which have been made.
- 29) Paragraph 6(c)(ii) of the Initial Order permits the CCAA Entities, with the consent of the Monitor and the DIP Agent, to pay pre-filing amounts owed to other suppliers up to an aggregate amount of \$11.6 million if, in the opinion of the CCAA Entities, the supplier is critical to the business and ongoing operations of the CCAA Entities. For the interim period November 14, 2009, to January 29, 2010, the Monitor has consented to payments to critical suppliers in the approximate amount of \$720,000, of which all but approximately \$60,000 has been paid. For the cumulative period January 26, 2009, to January 29, 2010, the Monitor has consented to total payments of approximately \$5.0 million, of which all but \$60,000 has been paid. For the interim period from January 30, 2010, to February 17, 2010, the Monitor has consented to further payments of approximately \$1.1 million, of which approximately \$930,000 relates to the settlement of a pre-filing construction lien claim against Smurfit-MBI's facility located in Guelph, Ontario.

CASH FLOW FORECAST AND RESULTS RELATIVE TO FORECAST

- 30) SSC U.S. and SSC Canada continue to receive payments of receivables on behalf of each other. The Company continues to track the intercompany receivables and payables on a daily basis and respective balances are settled once per month. The Monitor has confirmed that the last such settlement was made on January 29, 2010, for the December 2009 intercompany accounts.
- 31) The CCAA Entities' cash receipts and disbursements for the interim period November 14, 2009 to January 29, 2010 (the "**Variance Period**"), are presented below with a comparison to the cash flow forecast filed with this Honourable Court in the Tenth Report.
- 32) Overall, there is a \$21.4 million favourable variance between the actual and forecast net cash inflow during the Variance Period. For the entire CCAA period from January 26, 2009, to January 29, 2010, the CCAA Entities had an overall net cash inflow of \$37.9 million. For the Variance Period from November 14, 2009 to January 29, 2010, the material components of this overall variance are:

SSC Canada Inc.
Schedule of Actual Versus Forecasted Cash Flow
(in US \$000's)
(Unaudited)

Description	Cumulative amount for 11 week period from 11/14/2009 to 1/29/2010			Cumulative amount for 53 week period from 1/30/2009 to 1/29/2010
	Cumulative Actual	Cumulative Forecast	Variance - Favourable (Unfavourable) (\$)	
Operating Cash Receipts				
Collection of Accounts Receivables - Third party	119,177	111,968	7,209	585,143
Collection of Accounts Receivables - Intercompany	105,666	102,728	2,938	349,906
Other Receipts - Third party	6,282	11,055	(4,772)	38,196
Other Receipts - Intercompany	-	-	-	22,640
Tax Refunds / Sales Taxes Collected & other	-	-	-	1,351
Total Operating Receipts	231,125	225,750	5,375	997,237
Operating Cash Disbursements				
Purchases - Container Board	(59,193)	(56,244)	(2,949)	(239,187)
Purchases of other raw materials and supplies	(55,309)	(66,953)	11,643	(233,751)
Non inventory purchases and overheads	(48,801)	(52,979)	4,178	(231,513)
Employee related costs and benefits	(36,214)	(36,369)	155	(172,615)
Capital Expenditures	(1,400)	(1,069)	(331)	(3,535)
Non operational mill costs	(1,636)	(2,231)	594	(8,210)
Restructuring Professional Fees	(3,302)	(5,782)	2,480	(6,269)
Applicant's share of centralized services costs	(1,830)	(1,830)	-	(6,829)
Other Disbursements	-	-	-	(1,695)
Total Operating Cash Disbursements	(207,687)	(223,457)	15,770	(903,603)
Net Operating Cash Inflow (Outflow)	23,438	2,293	21,145	93,634
Financing Cash Receipts				
Canadian DIP Loan Advance (Repayment)	(7,200)	(7,200)	0	-
Total Financing Cash Receipts	(7,200)	(7,200)	0	-
Financing Cash Disbursements				
Pre-Filing Secured Debt Interest	(1,970)	(1,959)	(11)	(12,433)
DIP Loan Fees and Interest	(259)	(516)	257	(11,717)
Repayment of A/R securitization loan	-	-	-	(31,600)
Total Financing Cash Disbursements	(2,229)	(2,474)	245	(55,750)
Net Financing Cash Inflow (Outflow)	(9,429)	(9,674)	245	(55,750)
Net Cash Inflow (Outflow)	14,009	(7,381)	21,390	37,884
Estimated Opening Cash Balance (1)	26,490	26,496	(6)	8,814
Intercompany Collection/(repayment), net	(1,984)	(2,789)	805	(8,183)
Closing Cash Balance	38,515	16,325	22,190	38,515

(1) Includes adjustments relating to foreign exchange and void cheques

Note: Subject to rounding differences

TOTAL OPERATING CASH RECEIPTS

- 33) There was an overall favourable variance of cash receipts of \$5.4 million during the Variance Period, which is primarily related to the foreign exchange impact of a higher than forecast Canadian currency, a volume rebate from a non-controlled subsidiary, higher than forecast sales at the Pointe aux Trembles and La Tuque facilities and aggressive year-end collection efforts. The favourable variance was partially offset by lower than forecast sales at Smurfit MBI's converting operations and timing and permanent variances with respect to collections from the sale of redundant facilities and the Timberlands.

ACCOUNTS RECEIVABLE - THIRD PARTY

- 34) The collection of accounts receivable from third parties was \$7.2 million higher than forecast, primarily due to approximately \$4.8 million related to a higher than forecast Canadian currency, \$1.1 million collected during the week-ended January 8, 2010 with respect to a 2009 purchase volume rebate from a non-controlled subsidiary, approximately \$747,000 related to higher than forecast volume and average sales price at the Pointe aux Trembles facility, and aggressive year-end collection efforts. This favourable variance is partially offset by lower than expected collections resulting from reduced sales volumes at Smurfit MBI's converting operations.

OTHER RECEIPTS - THIRD PARTY

- 35) The unfavourable variance of approximately \$4.8 million primarily relates to uncollected proceeds of sale. Proceeds of sale for the Whitby facility of approximately \$2.0 million were forecast to be collected during the week-ended January 1, 2010; however the sale agreement was terminated prior to closing (as detailed later in this report). Net proceeds of approximately \$1.4 million from the sale of the New Richmond facility originally forecast to be collected during the week-ended January 1, 2010 were not collected during the Variance Period (approximately \$1.3 million was received on February 3, 2010, which was lower than the forecast amount due to additional asset removal costs). In addition, the CCAA Entities incurred additional asset removal and site clean-up costs of

\$907,000 from the sale of two non-operational mills. The balance of approximately \$909,000 with respect to the sale of the Timberlands was not collected as forecast during the Variance Period and remain in the trust account of Quebec counsel to the Company pending the expiry of the appeal period with respect to the discharge of certain lien claims. This variance was partially offset by the receipt of unforecasted proceeds of approximately \$332,000 during the week-ended December 25, 2009 from the sale of SSC Canada's 20% equity interest in an investment.

PURCHASES OF CONTAINERBOARD

- 36) The unfavourable variance of \$2.9 million is primarily related to a build up of rollstock inventory at Smurfit-MBI's converting operations.

PURCHASES OF OTHER RAW MATERIALS AND SUPPLIES

- 37) The favourable variance of \$11.6 million is due to a positive permanent variance related to GST and QST payments, supplies and other converting costs which actual results were recorded under Non-Inventory Purchases and Overhead. The favourable variance is also due to the composition of raw material purchases during the variance period which resulted in higher than forecast quantity purchases of sawdust, which is a lower priced commodity as compared to softwood chips and hardwood.

NON INVENTORY PURCHASES AND OVERHEADS

- 38) There is a favourable variance of \$4.2 million consisting of various timing and permanent variances. There was a favourable timing variance in utility costs of approximately of \$1.0 million resulting from better than expected credit terms for the Matane facility. The CCAA Entities also experienced timing variances totalling \$2.5 million with respect to shipping and delivery costs related to the Matane facility, rent and payments to critical vendors. The CCAA Entities recorded approximately \$18,000 of disbursements related to pre-petition customer rebates, which was significantly lower than the forecast amount of \$1.3 million for the Variance Period. The balance of these rebates is forecast to be paid prior to May 7, 2010. A positive variance of approximately \$6.1 million is considered permanent and is due to lower than forecast shipping and delivery costs,

utility rates, selling and administrative costs and fixed manufacturing costs. The overall positive variance is partially offset by higher than expected GST and QST payments of \$6.7 million that were forecast in Purchases of Other Raw Materials and Supplies.

CAPITAL EXPENDITURES

- 39) There was a negative variance of \$331,000 related to the CCAA Entities' capital expenditures being made earlier than forecast.

NON-OPERATIONAL MILL COSTS

- 40) The positive variance of \$594,000 is related to lower than forecast closure costs with respect to non-operational mills and is considered primarily permanent in nature. The positive variance was partially offset by higher than forecast removal and installation costs with respect to equipment transferred from the facility in Edmonton to Calgary.

RESTRUCTURING PROFESSIONAL FEES

- 41) The positive variance of \$2.5 million is a timing difference which is expected to reverse once professional fee invoices are rendered and paid by the CCAA Entities.

CANADIAN DIP LOAN ADVANCE (REPAYMENT)

- 42) There is no cumulative variance with respect to the Canadian DIP Facility. The Company fully repaid the DIP Facility during the week-ended December 25, 2009, which was one week earlier than forecast. As noted earlier in the Twelfth Report, the DIP Agreement expired on January 28, 2010.

OPENING CASH AND CLOSING CASH BALANCE

- 43) The opening cash balance as of November 14, 2009 was \$26.5 million, and the closing cash balance as of January 29, 2010 was \$38.5 million.

REVISED CASH FLOW FORECAST

- 44) The Company and its financial advisor have provided the Monitor with a cash flow forecast for the fourteen week period from January 30, 2010, to May 7, 2010 (the **“February Revised Cash Flow Forecast”**), which is attached hereto as Schedule “A”.
- 46) The Company and its legal counsel have advised the Monitor that there continues to be ongoing discussions with the Canada Revenue Agency (“CRA”) and the Ministère du Revenu du Québec regarding the collection of approximately CDN\$6.9 million in post-filing GST/HST refunds and CDN\$16.6 million in post-filing QST refunds which are being withheld by the taxing authorities pending settlement of Proofs of Claim filed by these taxing authorities. As a result, management has not forecast GST or QST refunds during this period.
- 47) Intercompany settlements, which take into account amounts collected by SSC U.S. and SSC Canada on behalf of each other and sales between these companies, are scheduled for the weeks ending February 26, 2010, April 2, 2010 and April 30, 2010. The February Revised Cash Flow Forecast includes total reimbursements of \$14.3 million of receivables that SSC Canada is forecast to collect on behalf of SSC U.S., which includes the \$5.5 million collected by SSC Canada during the month of January 2010 and is forecast to be settled on February 26, 2010 as part of the January 2010 intercompany settlement. The February Revised Cash Flow Forecast provides for total intercompany collections of accounts receivable on behalf of SSC U.S. of \$15.7 million which is based on the Company’s historical experience of such weekly collections.
- 48) During the forecast period, there are three monthly payments of \$610,000 from SSC Canada to SSC U.S. for the CCAA Entities’ allocated share of the costs of centralized services. These costs are forecast to be part of the monthly intercompany settlements between SSC U.S. and SSC Canada.
- 49) The February Revised Cash Flow Forecast also includes \$1.8 million for capital expenditures, \$616,000 for non-operational facility costs (of which \$509,000 relates to additional closure costs for the Edmonton facility), \$3.9 million for pre-filing secured

debt interest and \$3.5 million for restructuring professional fees.

- 50) The February Revised Cash Flow Forecast includes continued payments for the current service obligations of the CCAA Entities' various pension plans.
- 51) As at May 7, 2010, the Company projects that there will be a positive cash balance of \$17.7 million, which is net of a reduction of \$20.8 million since January 30, 2010.

RESTRUCTURING EFFORTS TO DATE

- 52) Since the commencement of the CCAA Proceedings, the Company has undertaken the following initiatives and actions in connection with its restructuring efforts in Canada:
 - i) the Company has continued its efforts to sell non-core assets:
 - as noted in Previous Reports, the Company received sale proceeds of \$27.8 million from the sale of the Timberlands. A holdback of approximately \$909,000 is forecast to be received in the week-ending March 5, 2010;
 - the Company sold the Edmonton facility for CDN \$4.5 million and the net proceeds of CDN \$4.5 million were received in the week-ended December 18, 2009. Disbursements relating to this transaction costs are primarily reflected in non-operational facility costs;
 - the Company had entered into an agreement to sell the Whitby facility for CDN \$2.15 million and the sale was anticipated to close in the week-ended January 1, 2010. The Company terminated the Agreement of Purchase and Sale with Andreas Apostolopoulos, in trust, as the purchaser would not waive the conditions, wanted additional time to conduct its due diligence, and wanted a reduction in the purchase price. The Whitby facility is currently being remarketed;
 - as reported in the Sixth Report and the Tenth Report, the Company sold the following three dormant mills:

- Pontiac mill in Portage-du Fort, Quebec for a gross purchase price of approximately \$1.8 million. Net proceeds of approximately \$1.0 million were received in the week-ended January 22, 2010;
 - the mill in New Richmond, Quebec, for a gross purchase price of approximately \$1.6 million. Net proceeds of approximately \$1.3 million were received in the week-ended February 5, 2010; and
 - the mill in Bathurst, New Brunswick for a gross purchase price of approximately \$1.6 million. Net proceeds of approximately \$783,000 were received in the week-ended January 15, 2010.
- ii) as noted previously, the CCAA Entities have repudiated certain real property leases and other executory contracts; and
- iii) the Company has filed the Plan and obtained an Order authorizing and directing the CCAA Entities to convene a meeting of their Creditors to consider and vote on the Plan on April 6, 2010.

OTHER MATTERS

- 53) As noted previously in this Twelfth Report and with reference to the Seventh and Tenth Reports, on December 11, 2009, this Honourable Court heard the Characterization Motion.
- 54) On January 29, 2010, this Honourable Court issued an Order that the Finance II Intercompany Claim (as defined in the Order) is not a debt provable in bankruptcy within the meaning of the CCAA and that the Finance II Intercompany Claim does not rank *pari passu* with the unsecured debt claims against SSC Canada and is valued at \$0. Aurelius Capital Management, LP and Columbus Hill Capital Management, L.P. have sought leave to appeal this Order.

MONITOR'S RECOMMENDATION

- 55) The stay provided for by the Stay Extension Order of this Honourable Court dated December 23, 2009, extended the stay period provided for in the Initial Order to February

26, 2010. The CCAA Entities are requesting a further stay to May 6, 2010.

- 56) The Monitor observes that Company management is working to realize on its non-core assets, reduce its costs, and manage the financial and operational aspects of the Company with a view to enhancing the long term viability of the Company.
- 57) The Company is operating in a manner consistent with its business plan and financial projections and the Monitor is not aware of any material unforecasted changes to its operations in Canada or the U.S. since the commencement of the Proceedings.
- 58) The Company has filed the Plan with both this Honourable Court and the U.S. Court. As noted above, on February 10, 2010, this Honourable Court granted the Plan Filing and Meeting Order which authorized the CCAA Entities to hold a meeting of their Creditors on April 6, 2010. An extension of the stay is required to permit the CCAA Entities to hold the meeting and, in the event the Plan is approved, move before this Court for a Sanction Order that would permit them to implement the Plan and emerge from these proceedings.
- 59) The Monitor is of the view that the CCAA Entities have acted, and continue to act, in good faith and with due diligence. Accordingly, the Monitor respectfully recommends that this Honourable Court approve the extension of the stay period to May 6, 2010.

All of which is respectfully submitted at Toronto, Ontario this 21st day of February, 2010.

DELOITTE & TOUCHE INC.
in its capacity as the Monitor
of Smurfit-Stone Container Canada Inc., *et al.*

Per:



Paul M. Casey, CA-CRP
Senior Vice-President

SCHEDULE "A"

SSC Canada Inc.

Cash Flow Forecast for the 14 week period from January 30, 2010, to May 7, 2010

SSC Canada Inc.
 Combined Cash Flow Forecast for the 14 week period January 30, 2010 to May 7, 2010
 (Unaudited)
 (In \$USD)

	5-Feb	12-Feb	19-Feb	26-Feb	5-Mar	12-Mar	19-Mar	26-Mar	2-Apr	9-Apr	16-Apr	23-Apr	30-Apr	7-May	14 week total
Receipts -															
Collection of Accounts Receivables - Third party	11,079	9,245	9,418	9,440	9,477	9,658	10,190	10,355	10,326	10,141	10,813	11,113	11,115	11,137	143,447 Note 1
Collection of Accounts Receivables - Intercompany	-	-	-	40,281	-	-	-	-	36,067	-	-	-	40,060	-	116,409 Note 2
Other Receipts - Third party	1,254	-	-	-	909	-	-	-	-	-	-	-	-	-	2,164 Note 3
Total Receipts	12,274	9,245	9,418	49,721	10,386	9,658	10,190	10,355	46,393	10,141	10,813	11,113	51,176	11,137	262,019
Disbursements															
Purchases - Container Board	(346)	(534)	(534)	(16,676)	(509)	(499)	(499)	(499)	(18,633)	(676)	(676)	(676)	(22,863)	(607)	(64,227) Note 4
Purchases of other raw materials and supplies	(2,471)	(4,610)	(4,809)	(11,815)	(4,724)	(4,732)	(4,731)	(4,725)	(11,607)	(4,685)	(4,685)	(4,678)	(11,878)	(4,470)	(84,221) Note 5
Non inventory purchases and overheads	(3,416)	(5,352)	(6,125)	(5,427)	(5,296)	(5,338)	(6,272)	(5,338)	(5,975)	(5,246)	(6,138)	(5,246)	(4,663)	(4,502)	(74,354) Note 6
Employee related costs and benefits	(3,253)	(3,309)	(4,119)	(4,541)	(3,138)	(2,702)	(3,917)	(3,233)	(2,731)	(4,214)	(3,917)	(3,233)	(3,821)	(2,961)	(48,888) Note 7
Capital Expenditures	(54)	(122)	(122)	(122)	(129)	(115)	(115)	(115)	(126)	(153)	(153)	(153)	(153)	(190)	(1,821) Note 8
Non operational facility costs	(76)	(180)	(180)	(180)	(180)	(180)	(180)	(180)	(180)	(180)	(180)	(180)	(180)	(180)	(616) Note 9
Restructuring Professional Fees	-	(639)	(339)	(610)	(339)	(300)	-	(300)	-	(300)	-	(300)	-	(300)	(3,455) Note 10
Applicant's share of centralized services costs	-	-	-	(610)	-	-	-	-	(610)	-	-	-	(610)	-	(1,830) Note 11
Other Disbursements	-	(950)	-	-	-	-	-	-	-	-	-	-	-	-	(950) Note 12
Pre-Filing Secured Debt Interest	(853)	(64)	-	-	(653)	(64)	-	-	(1,049)	-	(80)	-	(800)	(748)	(3,910) Note 13
DIP Loan Fees and Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Disbursements	(10,268)	(15,760)	(16,028)	(40,009)	(14,787)	(13,751)	(15,534)	(14,211)	(40,731)	(15,275)	(15,648)	(14,287)	(44,208)	(13,776)	(284,273)
Net cash flow	2,006	(6,515)	(6,610)	9,712	(4,401)	(4,093)	(5,344)	(3,856)	5,662	(5,134)	(4,835)	(3,175)	6,966	(2,639)	(22,254)
Forecast Opening Cash Balance	38,498	41,161	35,806	30,356	35,748	32,507	29,575	25,391	22,895	25,378	21,404	17,729	15,714	19,202	38,498
Intercompany collections on behalf of SSCE	658	1,160	1,160	1,160	1,160	1,160	1,160	1,160	1,160	1,160	1,160	1,160	1,160	1,160	15,738
Intercompany collection repayments to SSCE	-	-	-	(5,480)	-	-	-	-	(4,138)	-	-	-	(4,840)	-	(14,258)
Intercompany collection repayments	658	1,160	1,160	(4,320)	1,160	1,160	1,160	1,160	(2,978)	1,160	1,160	1,160	(3,480)	1,160	1,480 Note 14
Closing Cash Balance	41,161	35,806	30,356	35,748	32,507	29,575	25,391	22,895	25,378	21,404	17,729	15,714	19,202	17,724	17,724

This cash flow forecast must be read in conjunction with the Notes and Summary of Assumptions attached hereto

SSC Canada Inc.
Combined Cash Flow Forecast for the 14 week period January 30, 2010 to May 7, 2010
Notes and Summary of Assumptions

- 1 Collection of trade accounts receivable are in connection with sales made to third parties. Collections have been estimated based on payment terms for the top ten customers and average payment terms for the balance, net of an allowance for potential bad debts.
- 2 Intercompany receipts reflect the collection of intercompany sales made by SSCCI and SMBI to SSCE (US Parent) which are settled in the month following the sale as part of the intercompany settlement. Also included are SSCCI sales to external parties which are collected by SSCE on their behalf and then remitted through the following month's intercompany settlement.
- 3 Other Receipts are made up of: (a) proceeds of \$1.3M from the sale of the New Richmond Mill, forecast to be collected in the week ended February 5, and (b) \$900K held back from the Timberlands sale, forecast to be collected in the week ended March 5.
- 4 Containerboard is the principal commodity used in the production of containers and packaging. It is principally purchased from SSCE and is forecast to be settled as part of the intercompany settlement, one month in arrears.
- 5 Purchases of other raw materials and supplies (including wood) represent raw materials and services purchased from both third parties and SSCE and are used in the manufacturing process of container board, containers and packaging.
- 6 Non-inventory purchases and overhead costs represent all other operating costs (except payroll) associated with the production and sale of products and administration of the business, including rent (for leased premises), utilities, freight, office, and selling costs.
- 7 Employee costs represent salaries, wages, vacation pay, pension and other benefit costs. Employee withholdings are assumed to be remitted in the week following net payroll funding. Disbursements in respect of the various pension plans are only being made on account of current service for the period reflected.
- 8 Capital expenditures reflect management's forecast as at January 2010.
- 9 Non-operating facility costs represent costs associated with the Pontiac, Bathurst and New Richmond Mills and the closure of the Edmonton container board plant. Mill costs relate to site cleanup and other non-manufacturing costs. Plant costs relate to asset removals and capital expenditures. Although these assets are sold, disbursements are forecast to continue due to timing.
- 10 Restructuring professional fees represent the estimated fees of the Applicant's legal and financial advisers, the Monitor, its legal counsel, and monthly fees paid to the US Trustee Center.
- 11 The US parent provides an extensive range of services that benefit the Applicants, including accounting, treasury, procurement and senior management. The cost of the Applicants share of these services are forecast to be paid through the intercompany settlement, one month in arrears.
- 12 A lien payment in the amount of \$950K is forecast to be disbursed in the week ended February 12.
- 13 Interest and fees (not principal) will be paid to the Pre-Filing Credit Agreement lenders. April and May 2010 payments are subject to the timing of the new financing transactions closing date.
- 14 On a weekly basis SSCCI collects amounts from SSCE customers. Such collections and repayments are forecast using historical averages and are remitted to SSCE through the intercompany settlement, one month in arrears.
- 15 The Can\$/US\$ foreign exchange rate is assumed to be constant at C\$1.10:US\$1 throughout the period.

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 OF
SMURFIT-STONE CONTAINER CANADA INC., *et al.*

Court File No: CV-09-7966-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**TWELFTH REPORT OF THE MONITOR
DATED FEBRUARY 21, 2010**

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