

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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

AND IN THE MATTER OF THE BANKRUPTCY AND
INSOLVENCY ACT, R.S.C. 1985, c. B-3, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF SMURFIT-STONE CONTAINER
CANADA INC. AND THE OTHER APPLICANTS LISTED ON
SCHEDULE "A"

Applicants

**AFFIDAVIT OF ERIC MICHAUD
(Sworn July 28, 2009)**

I, ERIC MICHAUD, of the City of Montreal, in the Province of Quebec, MAKE
OATH AND SAY:

1. I am a Managing Director, Investment Banking in the Montreal office of Scotia Capital Inc. ("**Scotia Capital**") and as such have knowledge of the matters to which I hereinafter depose. Where I have relied on other sources of information, I have specifically referred to such sources and verily believe them to be true.
2. Scotia Capital's investment banking practice provides strategic and financial advisory services to Canada's top publicly-listed corporations and leading privately-held companies. Over the last 11 years, I have been involved in numerous domestic and cross-border financings involving a variety of securities including common, preferred and hybrid equity, income trust units, high yield securities and investment grade debt. I have also participated in numerous high profile mergers and acquisitions and corporate restructuring mandates, which collectively totalled more than \$23 billion in transaction value, including four timberland sell-side mergers and acquisitions mandates.

3. Prior to joining Scotia Capital in 2005, I spent over 6 years with Merrill Lynch Global Markets and Investment Banking Group (Toronto and Montreal). I received a Bachelor of Business Administration degree from Université Laval in 1991 and hold designations as a Chartered Financial Analyst and as a Chartered Accountant.

INTRODUCTION

4. This affidavit is sworn in connection with the motion brought by Smurfit-Stone Container Canada Inc. ("**SSC Canada**") and the other Applicants listed on Schedule "A" hereto seeking, *inter alia*, approval of (i) the asset purchase agreement between SSC Canada and Société générale de financement du Québec ("**SGF**") dated April 30, 2009 (the "**Asset Purchase Agreement**") and (ii) the wood fibre supply agreement between AbitibiBowater and Smurfit-Stone Container Enterprises, Inc. ("**SSC Enterprises**") and SSC Canada dated July 22, 2009 (the "**Wood Fibre Supply Agreement**").

5. The Asset Purchase Agreement provides for a going concern sale of 389,383 hectares (962,204 acres) of private timberlands (the "**Timberlands**") and related assets and operations which are currently owned and conducted by SSC Canada in Northern Quebec (collectively, the "**Timberland Assets**"). The Timberland Assets to be acquired under the Asset Purchase Agreement exclude any operations or land relating to SSC Canada's paperboard mill located in La Tuque, Quebec (the "**Mill**"), other than the supply of wood and wood products to the Mill from the Timberlands.

6. This affidavit summarizes the sales and marketing efforts that SCC Canada and Scotia Capital have undertaken in relation to the sale of the Timberland Assets, culminating in the entering into of the Asset Purchase Agreement.

7. Capitalized terms in this affidavit not otherwise defined have the same meanings as in the affidavit of Dean R. Jones sworn July 28, 2009 (the "**Jones Affidavit**").

ENGAGEMENT OF SCOTIA CAPITAL

8. Scotia Capital was retained by SSC Canada in August 2008 to act as its exclusive financial advisor in order to canvass the market with a view to pursuing a potential divestiture transaction involving the Timberland Assets.

MARKETING AND SALES EFFORTS

9. At all times, Scotia Capital has worked closely with SSC Canada's senior management team to market the Timberland Assets. The Timberland Assets are unique since prospective purchasers are most likely current participants in the forestry sector or strategic investors interested in the sector with the financial resources to support a transaction of this nature. Scotia Capital therefore considered various marketing methodologies and concluded that a process exposing the Timberland Assets to a defined group of potential purchasers would generate the most interest and maximize value. The sales and marketing process was therefore conducted by Scotia Capital in two phases.

10. In the first phase, Scotia Capital developed a comprehensive list of potential purchasers located in Canada, the U.S. and elsewhere that it thought might be capable and interested in acquiring the Timberland Assets. The list of potential purchasers included (i) active players in the timberlands market with interest or presence in the North Eastern North American region; (ii) active players with a lower probability of participating in an auction process; and (iii) certain financial investors who were known to have an interest in the timberland sector and who, in the opinion of Scotia Capital, might be interested in a possible transaction involving the Timberland Assets. In total, Scotia Capital contacted 57 potential purchasers, including 34 strategic purchasers and 17 financial investors.

11. Prior to contacting the targeted list of potential purchasers, SSC Canada's management team and Scotia Capital gave careful consideration to the merits of issuing a press release announcing SSC Canada's intention to sell the Timberland Assets. Ultimately, SSC Canada decided, with the assistance of Scotia Capital, that a press release was not required for the following reasons:

- (a) the Timberland Assets represent a relatively unique investment class;
- (b) the universe of potential purchasers was readily identifiable and well known by Scotia Capital as a result of its prior timberland sale mandates; and
- (c) Scotia Capital had recently issued a press release for another Québec timberland transaction and it did not produce any additional credible bidders beyond the pre-established target list.

12. Concurrent with the development of the targeted list of potential purchasers, Scotia Capital worked with SSC Canada's management team to create marketing documents for the sale of the Timberland Assets including a "Teaser" document, a confidential information memorandum (the "**Confidential Information Memorandum**") and a comprehensive management presentation. The Teaser provided a high-level overview of the Timberland Assets and was designed to assist potential purchasers in determining whether or not to proceed with an in-depth investigation of the acquisition opportunity. The Confidential Information Memorandum was a more comprehensive description of the Timberland Assets and included a summary of relevant operating and financial information, including pro forma financials for the Timberlands on a stand-alone basis. Of the 57 potential purchasers contacted by Scotia Capital, 50 potential purchasers expressed some interest in an acquisition involving some or all of the Timberland Assets. Teasers were distributed to these 50 potential purchasers. SSC Canada ultimately entered into non-disclosure agreements with 13 potential purchasers – 9 strategic purchasers and 4 financial investors. The 13 potential purchasers were provided with a copy of the Confidential Information Memorandum and were invited to submit a non-binding expression of interest by late October 2008.

13. A confidential online data room was also set up by SSC Canada containing information that would be pertinent to a potential purchaser (the "**Data Room**"). Information posted to the Data Room included financial, operational and other relevant information. The two Second Round Participants (defined below) who entered into non-disclosure agreements received access to the Data Room. Throughout the sales process, Scotia Capital and SSC Canada worked with SSC Canada's legal advisors to update the Data Room.

RESULTS OF MARKETING INITIATIVES

14. Generally speaking, timberlands are viewed as an attractive investment, particularly in times of economic uncertainty (in part because they are renewable resources of continuous growth). However, with respect to the Timberlands being marketed by SSC Canada, which are characterized primarily by low-value pulpwood, as opposed to higher value sawlog and other high-end wood, the number of parties that came forward with expressions of interest was limited. In addition, the interest of potential purchasers in the Timberland Assets was limited in some circumstances by (i) the decline in the capital markets over the past 12 months; (ii) the

poor performance of the underlying businesses of parties who would otherwise have likely been interest in the Timberland Assets; (iii) increased competition for investment dollars in the capital markets caused by an abundant supply of distressed assets in the market; (iv) the size and far Northern location of the Timberlands; and (v) certain operational issues related to the size of the Timberlands, including access to the Timberlands.

15. As a result, of the 13 potential purchasers who executed non-disclosure agreements, SSC Canada received 3 first round non-binding bids for the Timberland Assets - 2 bids from strategic purchasers and 1 from SGF, a Québec provincial government financial institution.

16. In the second phase of the sales process, Scotia Capital reviewed the three first round non-binding bids and discussed them with SSC Canada's management team. SSC Canada's management team, together with Scotia Capital, met with and delivered management presentations to two of the parties who submitted first round bids (the "**Second Round Participants**"). The two second round participants were also provided with a site visit. The management presentations provided the opportunity for the Second Round Participants to ask Scotia Capital and SSC Canada's management specific questions about the Timberland Assets and the business more generally.

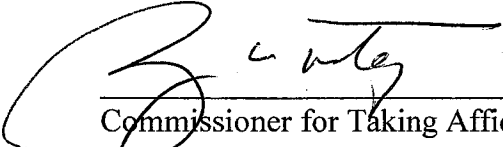
17. Of the 3 potential purchasers who submitted first round non-binding bids, no binding offers were submitted by the requested deadline of December 16, 2008 and, of the Second Round Participants, only SGF elected to submit a second round non-binding bid on January 21, 2009. SSC Canada proceeded to negotiate with SGF between February and April 2009 in an attempt to reach an agreement to secure the best possible transaction for the sale of the Timberland Assets.

18. On April 30, 2009, SSC Canada signed the Asset Purchase Agreement with SGF. A copy of the Asset Purchase Agreement is attached to the Jones Affidavit.

19. As a result of Scotia Capital's prior experience in marketing assets of this nature and being directly involved in this particular mandate, I am satisfied that the Timberland Assets were exposed to the market in a process specifically tailored to attract the interests of prospective purchasers for such assets. The result of that process was the successful completion of the Asset


Purchase Agreement which, in my view, represents a fair and reasonable price for the
Timberland Assets for the benefit of SSC Canada stakeholders.

SWORN BEFORE ME at the City of
Montreal, in the Province of Quebec, on
July 28, 2009.



Commissioner for Taking Affidavits

MIRIAM SARRAZIN
NOTARY FOR THE
PROVINCE OF QUEBEC



Eric Michaud

SCHEDULE "A"

Smurfit-Stone Container Canada Inc.

3083527 Nova Scotia Company

MBI Limited/Limitée

639647 British Columbia Ltd.

B.C. Shipper Supplies Ltd.

Specialty Containers Inc.

605681 N.B. Inc.

Francobec Company

Stone Container Finance Company of Canada II

SCHEDULE "B"

Smurfit-MBI

SLP Finance General Partnership

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Ontario
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Proceeding commenced at TORONTO

AFFIDAVIT OF ERIC MICHAUD
(Sworn July 28, 2009)

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