

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, 639647 BRITISH  
COLUMBIA LTD., B.C. SHIPPER SUPPLIES LTD.,  
SPECIALTY CONTAINERS INC., FRANCOBEC  
COMPANY AND 605681 N.B. INC.

APPLICANTS

THIRD REPORT OF THE MONITOR  
DATED APRIL 26, 2009

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, 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 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 February 24, 2009, this Honourable Court issued a Stay Extension Order which extended the stay in respect of the CCAA Entities until April 30, 2009.
- 4) On March 12, 2009, this Honourable Court issued an Order approving a cross border insolvency protocol between the U.S. Court (as defined below) and this Honourable Court.
- 5) The Initial Order, together with certain other court documents, the Pre-Filing Report of Deloitte in its capacity as the Proposed Monitor of the CCAA Entities dated January 26, 2009 (the "**Pre-Filing Report**"), the First Report of the Monitor dated February 23, 2009 (the "**First Report**"), the Second Report of the Monitor dated March 6, 2009 (the "**Second Report**" and, with the Pre-Filing Report, and the First Report, 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](http://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.
- 6) Each of the CCAA Entities also filed for protection in the Chapter 11 Proceedings as defined below along with Smurfit-Stone Container Corporation ("**SSCC**") and certain other Smurfit-Stone entities. SSCC, together with its direct and indirect subsidiaries, are referred to herein as the "**Company**" or "**Smurfit-Stone**".
- 7) The purpose of this report ("**Third Report**") is to provide this Honourable Court with an update in respect of the following:
  - (a) the ongoing operations of the CCAA Entities;
  - (b) the Chapter 11 Proceedings;
  - (c) the DIP facility;
  - (d) critical suppliers and pre-CCAA expenses;

- (e) pension and other employee matters;
  - (f) the cash flow forecast and results relative to forecast;
  - (g) revised updated cash flow forecast;
  - (h) restructuring efforts to date; and
  - (i) the Monitor's recommendations.
- 8) Unless otherwise provided, capitalized terms not defined in this Third Report are as defined in the Previous Reports or, if not defined therein, the Initial Order.

#### **TERMS OF REFERENCE**

- 9) In preparing this Third 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 Third Report.
- 10) Certain of the information referred to in this Third 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 Third 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.
- 11) Unless otherwise noted, all dollar amounts contained in this Third Report are expressed in U.S. dollars.

## BACKGROUND

- 12) Based in St. Louis and Chicago, Smurfit-Stone is a leading North American producer of paperboard products, market pulp, corrugated containers and other specialty packaging products. It is also one of the world's largest recyclers of paper. The Company currently holds approximately 18% of the North American containerboard market. SSC Canada and Smurfit-MBI are the principal Canadian operating companies. SSC Canada directly operates mills and plants producing linerboard (a component of corrugated containerboard), corrugating medium (a further component of corrugated containerboard) and foodboard (coated corrugated cardboard). Smurfit-MBI is a converting operation that produces corrugated containers using, amongst other inputs, linerboard and medium from Smurfit-Stone's mills. The CCAA Entities currently employ approximately 2,600 people (both non-unionized and unionized) across Canada. Further background on the CCAA Entities and Smurfit-Stone is contained in the Pre-Filing Report and the Jones Affidavit, both of which are available on the Monitor's Website.
  
- 13) On January 26, 2009, SSCC and certain of its direct and indirect subsidiaries, including Smurfit-Stone Container Enterprises Inc. and the CCAA Entities (collectively, the "**U.S. Debtors**"), filed for bankruptcy protection pursuant to Chapter 11 of the *United States 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**"). Information concerning the Chapter 11 Proceedings can be found at <http://chapter11.epiqsystems.com/smurfit>. 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.

## ONGOING OPERATIONS

- 14) 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. The status of certain Canadian critical suppliers

along with the payments and post-filing arrangements made with them is discussed in more detail later in this Third Report. There have been no significant changes in the workforce of the CCAA Entities and the Company has secured the necessary financing, through the DIP Facility, to continue operations while it attempts to restructure.

- 15) AbitibiBowater Inc. is a major fibre supplier to SSC Canada's La Tuque Mill. On April 16, 2009, AbitibiBowater Inc., Abitibi-Consolidated Inc., and Bowater Canadian Holdings Inc. (collectively "**Abitibi**") filed for bankruptcy protection under Chapter 11 of the *United States Bankruptcy Code* and, on April 17, 2009, filed under the CCAA. The Company has had a long standing relationship with Abitibi and has advised the Monitor that it is in daily discussions with Abitibi to ensure uninterrupted continuation of supply.
- 16) The Company and its counsel are in the process of dealing with a number of potential lien claimants that primarily relate to the expansion of Smurfit-MBI's plant in Guelph, Ontario. The Monitor understands that work is presently being performed on the Guelph property as requested by the Company.

## **CHAPTER 11 PROCEEDINGS**

- 17) As noted previously, 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 (as defined below) in respect of the Partnerships under section 268 of the BIA.
- 18) Since the filing of the First Report, the following significant orders have been issued by the U.S. Court:
  - (a) On March 10, 2009, an Order approving the Protocol; and
  - (b) On March 10, 2009, an Order authorizing the rejection of certain executory contracts and unexpired leases, of which the CCAA Entities were parties to the following:

Landlord or property owner name and notice address	Leased Premises or Property	Tenant or Entity or Lessee	Description of Property	Type of Lease	Lease Term
630 Rene-Levesque West Property Co. Represented by 630 Rene-Levesque Management Inc.  1555 Peel Street, Suite 700 Montreal, QC H3A 3L8	630 Rene-Levesque West, Suite 3000 Montreal, QC H3B 5C7	SSC Canada	Office Building	Lease	11/1/07-10/31/17 Rejection effective as of March 31, 2009
Hopewell Development Corporation 600, 1122 – 4 <sup>th</sup> Street SW Calgary, AB T2R 1M1  Sublessor: Specialty Containers, Inc. c/o Avison Young Commercial Real Estate (Alberta) Suite 308, 401 9 <sup>th</sup> Avenue SW, Calgary, AB T2P 3O5	6900 – 54 <sup>th</sup> SE Street, Calgary, AB	Specialty Containers, Inc.  Sublessee: C&R Transportation Inc. c/o Calgary SMI Commercial Real Estate Limited Suite #107, 825-8 <sup>th</sup> Avenue SW, Calgary, AB T2P 2T3	Plant	Lease  Sublease	6/1/07 – 5/31/17  11/1/08 – 5/30/17
Metrus Properties ltd. 30 Floral Parkway, Concord, ON L4K 4R1  Sublessor: SSC Canada 630 Boul. Rene Levesque Ouest Bureau 3000, Montreal, QC H3B 5C7	1005 Copperstone Drive, Pickering, ON	SSC Canada  Sublessee: Great Lakes Chemical Company c/o BioLab Canada Inc., 1005 Copperstone Drive, Pickering, ON	Plant	Lease  Sublease	1/15/00 – 1/14/15  10/7/04 – 1/14/15

- 19) On April 7, 2009, an Order authorizing the rejection of certain executory contracts and unexpired leases, of which the CCAA Entities were parties to the following:

Landlord or property owner name and notice address	Leased Premises or Property	Tenant or Entity or Lessee	Description of Property	Type of Lease	Lease Term
Medalist Holdings Limited, Louis Weisfeld Limited, Hillholm Holdings Ltd., Anita Lomberg, Lola Weisfeld, operating as Harvester Executive Park  3390 South Service Road, Burlington, ON, L7N 3J5	5230 South Service Road, Burlington, ON	SSCC	Office	Lease	3/15/96 – 7/31/01  Rejection effective as of April 30, 2009

- 20) 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**

- 21) As outlined in the Pre-Filing Report and the First Report, the Company entered into the DIP Credit Agreement with the DIP Lenders. The DIP Facility provides for an aggregate of \$750.0 million in DIP financing for Smurfit-Stone as follows:

- (a) a \$250.0 million revolving credit facility for SSC U.S. and/or SSC Canada;
- (b) a \$65.0 million revolving credit facility for SSC Canada and/or SSC U.S.;
- (c) a \$400.0 million term loan facility for SSC U.S.; and
- (d) a \$35.0 million term loan facility for SSC Canada.

- 22) As at April 17, 2009, there have not been any additional borrowings by SSC Canada under the DIP Facility since the filing of the First Report. The borrowings of \$40.0 million by SSC Canada under the DIP Facility are comprised of the following amounts :

- (a) \$5.0 million borrowed under the Canadian revolving facility for working capital, general corporate purposes, and transaction costs was subsequently repaid on April 9, 2009; and
- (b) \$35.0 million borrowed under the Canadian term loan facility used to fully repay and unwind the Canadian A/R Securitization Program plus interest, fees and expenses related to the DIP Facility.

- 23) As at April 17, 2009, there have not been any additional borrowings by SSC U.S. on the term loan facility. The Company's borrowings of \$400.0 million by SSC U.S. on the term loan facility represent the funds used to fully repay and unwind the U.S. accounts receivable securitization program plus interest, fees and expenses related to the DIP Facility.

- 24) The DIP Credit Agreement requires that the Company provide weekly and monthly combined Borrowing Base Certificates (as defined in the DIP Credit Agreement) to the DIP Agent for both the Canadian Loan Parties and U.S. Loan Parties. The Borrowing Base Certificate determines the available borrowing base (which includes certain qualifying accounts receivable, inventory and property plant and equipment) to support the borrowings by the Canadian Loan Parties and the U.S. Loan Parties under the DIP Facility. Pursuant to Section 24(d) of the Initial Order, the Monitor has reviewed the borrowing base information provided by Smurfit-Stone to the DIP Agent up to and including April 17, 2009. The Monitor is not aware of any events of default with respect to the DIP Credit Agreement.

#### **CRITICAL SUPPLIERS AND PRE-CCAA EXPENSES**

- 25) 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 the Applicants and Partnerships prior to January 26, 2009, by railways, trucking companies and other carriers and customs brokers. As at April 3, 2009, the Monitor has consented to total payments of approximately \$919,000, of which \$64,000 were paid during the period January 26, 2009 to April 3, 2009. The Company has not presented further requests for consents under paragraph 6(c)(i) of the Initial Order since April 3, 2009.
- 26) 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 \$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. As at April 3, 2009, the Monitor has consented to payments to critical suppliers in the approximate amount of \$1.3 million, of which \$703,000 was paid during the period January 26, 2009, to April 3, 2009. Since April 3, 2009, the Monitor has consented to payments to critical suppliers in the approximate amount of \$335,000.

## **PENSION AND OTHER EMPLOYEE MATTERS**

- 27) Since the commencement of the Proceedings, there have been no significant changes in the workforce for the CCAA Entities and there have been no labour disruptions. The Matane Mill in Quebec continues to remain temporarily shut down since November 2008. The B.C. Shippers collective bargaining agreement (“**CBA**”) with the Pulp, Paper and Woodworkers of Canada union expired December 31, 2008, and is in the process of being re-negotiated by the Company. In addition, the Company is in the process of re-negotiating three other CBAs that expire in April 2009.
- 28) The CCAA Entities have not made any contributions related to the Supplementary Executive Retirement Plans. As described in the Pre-Filing Report, obligations under two of these plans are secured by letters of credit. The letters of credit were drawn on February 23, 2009, and March 2, 2009, in the approximate amounts of CDN\$19.8 million and CDN\$12.7 million respectively.
- 29) As noted in the Pre-Filing Report and the First Report, SSC Canada permanently closed its Pontiac pulp mill located in Portage-du-Fort, Quebec on October 31, 2008, and approximately 220 jobs were impacted. As at the Filing Date, CDN\$0.7 million in severance remained unpaid and outstanding to several non-union employees that were retained to assist with the closure of the mill. After April 30, 2009, two employees will continue to be retained as caretakers of the Pontiac mill. The other non-union employees have either been paid their severance or are on salary continuance. There was approximately CDN \$4.9 million owed at the commencement of the Proceedings to 185 affected unionized employees with the Communications, Energy and Paperworkers Union of Canada (“**CEP**”) at the mill (the “**Pontiac Union Employees**”). In accordance with the CBA, the first payment was made on February 19, 2009, in the approximate amount of CDN\$2.7 million with the final severance payment of CDN\$2.2 million being paid on April 2, 2009. For those employees who elected to have their severance payments transferred to their RRSP’s, those payments were made in the ordinary course of the regular monthly remittances. The Company was permitted to pay these pre-filing obligations pursuant to Section 6(a) of the Initial Order. The Monitor understands that the severance amounts have been calculated in accordance with the CBA existing at the

time of the closure of the Pontiac pulp mill and that these payments will assist to maintain the Company's relationships with the other members of the CEP continuing to work at other Company locations.

30) As outlined in the Pre-Filing Report and as addressed in the Initial Order, the CCAA Entities have various pension and other employee benefit plans in place for their current and former employees. The status of the payments under these plans since the commencement of the CCAA Proceedings is as follows:

(a) SSC Canada and Smurfit-MBI have continued to make current service contributions in respect of their defined benefit registered pension plans during the CCAA Proceedings;

(b) As noted above, the CCAA Entities have not made any contributions related to the Supplementary Executive Retirement Plans; and

(c) SSC Canada has continued to match employee contributions to group registered retirement savings plans.

31) SSC Canada and Smurfit-MBI plan to continue to pay certain outstanding pre-filing obligations with respect to the various benefit programs in place for their active employees and retirees. SSC Canada and Smurfit-MBI are continuing to work with their advisors to address various pension matters.

#### **CASH FLOW FORECAST AND RESULTS RELATIVE TO FORECAST**

32) The Company continues to use its Centralized Cash Management System to collect funds and pay expenses associated with its operations. The Centralized Cash Management System is managed using the oversight procedures and controls that were implemented by Smurfit-Stone's centralized treasury operations ("**Treasury**") in Creve Coeur, Missouri. Under this system, individual entities, now including B.C. Shippers which was integrated into the Centralized Cash Management System on March 1, 2009, do not have the ability to make payments on their own.

- 33) As noted in the Pre-Filing Report and the First Report, prior to the CCAA Proceedings, the Company did not cash settle the various entities within Smurfit-Stone for the use of centralized services. Management had previously calculated that the total charge for centralized services to the CCAA Entities was \$15.0 million per year, or \$1.25 million per month. Subsequent to the filing of the First Report, Management conducted a further review of the costs for the centralized services for the fiscal year ending December 31, 2007, and as a result of the review, has reduced the monthly centralized services charge to the CCAA Entities to \$9.0 million per year or \$750,000 per month. Management is currently reviewing the 2008 centralized services costs for the fiscal year ending December 31, 2008, to determine if further revisions to the centralized services charge are warranted. The first payment by SSC Canada to SSC U.S. for its allocated share of the costs of centralized services for the five week period from January 26, 2009 to February 28, 2009 occurred on March 31, 2009 in the amount of \$895,000.
- 34) In the April Revised Cash Flow Forecast discussed later in this Third Report, the Company has forecast settlements of the intercompany balances during the weeks of April 24, 2009, May 22, 2009, and June 19, 2009. The forecasted intercompany settlements maybe subject to minor delays due to accounting reconciliations. In this regard, the Monitor has been advised that the intercompany settlements reflected in the April Revised Cash Flow Forecast have been deferred by one week.
- 35) As noted in the First Report, SSC U.S. has not opened a Canadian bank account, and as a result, SSC Canada will be required on occasion to pay for Canadian dollar purchases for SSC U.S. for which SSC Canada will then be reimbursed. SSC U.S. and SSC Canada also each receive payments of receivables on behalf of each other. The Company tracks the intercompany receivables and payables on a daily basis and then the respective accounts are settled once a month.
- 36) The CCAA Entities cash receipts and disbursements for the period January 26, 2009, to April 3, 2009 (the “**Variance Period**”), are presented below with a comparison to the cash flow forecast and the Revised Cash Flow Forecast filed with this Honourable Court in connection with the commencement of the CCAA Proceedings.

SSC Canada Inc.  
 Schedule of Actual Versus Forecasted Cash Flow  
 For the Ten Week Period Ended April 3, 2009  
 (In US \$000's)  
 (Unaudited)

Description	Actual	Forecast	Variance - Favourable (Unfavourable) (\$)
<b>Operating Cash Receipts</b>			
Collection of Accounts Receivables - Third party	101,683	110,395	(8,712)
Collection of Accounts Receivables - Intercompany	36,267	67,066	(30,799)
Other Receipts - Third party	3,986	90	3,896
Other Receipts - Intercompany	7,504	-	7,504
<b>Total Operating Receipts</b>	<b>149,441</b>	<b>177,551</b>	<b>(28,110)</b>
<b>Operating Cash Disbursements</b>			
Purchases - Container Board	(26,094)	(54,628)	28,534
Purchases of other raw materials and supplies	(31,366)	(57,382)	26,016
Non inventory purchases and overheads	(43,746)	(43,358)	(388)
Employee related costs and benefits	(30,006)	(41,531)	11,526
Capital Expenditures	(168)	(1,926)	1,758
Non operational mill costs	(2,534)	(4,133)	1,599
Restructuring Professional Fees	(397)	(1,328)	931
Applicant's share of centralized services costs	(895)	(2,500)	1,605
Other Disbursements	(1,471)	(19)	(1,452)
<b>Total Operating Cash Disbursements</b>	<b>(136,675)</b>	<b>(206,805)</b>	<b>70,130</b>
<b>Net Operating Cash Inflow (Outflow)</b>	<b>12,765</b>	<b>(29,254)</b>	<b>42,019</b>
<b>Financing Cash Receipts</b>			
Canadian DIP Loan Advance (Repayment)	40,000	53,337	(13,337)
<b>Total Financing Cash Receipts</b>	<b>40,000</b>	<b>53,337</b>	<b>(13,337)</b>
<b>Financing Cash Disbursements</b>			
Pre-Filing Secured Debt Interest	(3,935)	(4,319)	384
DIP Loan Fees and Interest	(6,256)	(4,687)	(1,569)
Repayment of A/R securitization loan	(31,600)	(30,864)	(736)
<b>Total Financing Cash Disbursements</b>	<b>(41,791)</b>	<b>(39,870)</b>	<b>(1,920)</b>
<b>Net Financing Cash Inflow (Outflow)</b>	<b>(1,791)</b>	<b>13,467</b>	<b>(15,258)</b>
<b>Net Cash Inflow (Outflow)</b>	<b>10,974</b>	<b>(15,787)</b>	<b>26,762</b>
Estimated Opening Cash Balance	6,041	705	5,336
Add: Readjusted Opening Cash Balance from Revised Forecast (Week Ending Feb. 13, 2009)	-	15,103	(15,103)
FX Impact on Opening Cash	25	(20)	45
<b>Closing Cash Balance</b>	<b>17,040</b>	<b>-</b>	<b>17,040</b>

Note: The readjusted opening cash balance of \$15 million represents a timing difference from the Pre-Filing Cash Flow Forecast to the Revised Forecast in the First Report.

- 37) Overall there is a \$17.0 million favourable variance between the actual and forecasted cash balance during the Variance Period. The material components of this overall variance are outlined below.

**CASH RECEIPTS**

- 38) There was an overall unfavourable variance of cash receipts of \$28.1 million.

***ACCOUNTS RECEIVABLE-THIRD PARTY***

- 39) The collection of accounts receivable from third parties was \$8.7 million lower than forecast due to timing differences in the collection of accounts receivable, negotiations and set-off agreements with certain customers which impacted the collection of accounts receivable and some customers withheld payment pending discussions with management on volume rebates.

***ACCOUNTS RECEIVABLE-INTERCOMPANY***

- 40) Intercompany collection of accounts receivable was \$30.8 million lower than forecast due to a timing delay in the March 2009 intercompany settlement.

***OTHER RECEIPTS-THIRD PARTY***

- 41) There was a favourable variance of \$3.9 million due to receipt of GST of \$2.5 million not forecast and CDN\$1.4 million that was reimbursed by SSC U.S. for GST and duty on cross border shipments that SSC Canada had paid on their behalf.

***OTHER RECEIPTS-INTERCOMPANY***

- 42) In addition, other intercompany receipts showed a favourable variance of \$7.5 million. This is primarily related to \$7.4 million that SSC Canada collected on behalf of SSC U.S. and will be paid as part of the March 2009 intercompany settlement.

***PURCHASES OF CONTAINER BOARD, OTHER RAW MATERIALS AND SUPPLIES***

- 43) The combined favourable variance of \$54.6 million is primarily related to fibre purchases and the deferral of the March 2009 intercompany settlement. Materials in inventory at the Matane Mill were shipped to the La Tuque Mill rather than being purchased externally. In addition, a machine at the La Tuque Mill was shut down for the majority of March for market related reasons resulting in less fibre being purchased than forecast. The positive variance was also the result of lower than expected payments to critical vendors, some of which are considered to be a timing difference.

***NON INVENTORY PURCHASES AND OVERHEADS***

- 44) There is a negative variance of \$388,000. This category includes numerous different expense types which experienced both favourable and unfavourable and permanent and timing differences for a variety of reasons which net to a negative variance.

***EMPLOYEE RELATED COSTS AND BENEFITS***

- 45) The positive variance of \$11.5 million is primarily permanent in nature, as the forecasted payroll expenditures were overestimated. There are also timing differences related to the delay between employee source deductions being withheld and normal course remittances being made to the government.

***CAPITAL EXPENDITURES***

- 46) There was a positive variance of \$1.8 million largely related to the Company's efforts to defer and minimize unnecessary capital expenditures.

***NON OPERATIONAL MILL COSTS***

- 47) The positive variance of \$1.6 million is primarily a permanent difference relating to lower than forecast carrying costs associated with dormant mills.

***RESTRUCTURING PROFESSIONAL FEES***

- 48) The positive variance of \$931,000 is a timing difference which will reverse once professional fee invoices are rendered and paid by the CCAA Entities.

***CCAA ENTITIES' SHARE OF CENTRALIZED SERVICE COSTS***

- 49) There was a positive variance of \$1.6 million. Of the \$1.25 million forecasted to be paid on March 6, 2009, \$895,000 was paid on March 31, 2009, as part of the first intercompany settlement. The \$895,000 represents a payment of \$750,000 for the month of February and \$145,000 for the last week of January. The Revised Cash Forecast anticipated a second \$1.25 million payment of the centralized service costs for the month of March on April 3, 2009 which payment has now been reforecast to \$750,000 per month and is to be settled as part of the March intercompany settlement. Therefore, there is a permanent difference of \$855,000 due to the change in the centralized service cost as

noted above, and a timing difference of \$750,000.

***DIP LOAN FEES AND INTEREST***

- 50) There was an overall unfavourable permanent variance of \$1.9 million. This is due to an unfavourable permanent variance of \$4.3 million attributable to fees and costs related to the DIP Facility which followed the final determination of an appropriate allocation to the CCAA Entities. The Revised Cash Flow in the First Report included DIP Facility fee payments totalling \$3.0 million during the Forecast Period, which were not made. The \$3.0 million in DIP fees are now forecast to be paid as part of the March intercompany settlement. The remaining unfavourable permanent variance of \$0.6 million relates to additional interest paid.

***OPENING CASH BALANCE***

- 51) As noted in the First Report, there is a favourable permanent variance of \$5.3 million which reflects a tax refund of CDN\$1.3 million being received which had not been forecast during the period, as well as unforecast additional accounts receivable collections of CDN\$2.5 million. The remaining permanent difference is a result of less than forecast accounts payable cheques clearing the bank when the accounts were frozen as part of the CCAA Proceedings.

***INTERCOMPANY SETTLEMENTS***

- 52) In the Revised Cash Flow Forecast, two intercompany settlements were forecast to be made on March 6, 2009, and April 3, 2009, with positive net cash inflows to the CCAA Entities of approximately \$10.6 million and \$7.4 million respectively. The February 2009 intercompany settlement occurred on March 31, 2009, with a net positive inflow to the CCAA Entities of approximately \$4.2 million. Of the unfavourable variance of \$6.4 million, \$5.2 million is permanent in nature as SSC U.S. had paid disbursements on behalf of SSC Canada and \$1.2 million is a timing difference.

**REVISED CASH FLOW FORECAST**

- 53) The Company and its financial advisor have provided the Monitor with a 13-week cash

flow forecast (“**April Revised Cash Flow Forecast**”) which is attached hereto as Schedule “A”.

- 54) Periodically, the Company undertakes an updated forecast of its operations in both Canada and the U.S. This review which was recently completed included, but was not limited to, updating estimates regarding volumes, selling prices, capital expenditures, input prices, and other measures undertaken to conserve cash. The April Revised Cash Flow Forecast represents the Company’s best estimate of the CCAA Entities’ operations and cash flows for the period ending July 3, 2009.
- 55) As noted above, the intercompany settlement that was to occur on April 3, 2009 and was reforecast in the April Revised Cash Flow Forecast to occur on April 24, 2009, will now occur on May 1, 2009. The April Revised Cash Flow Forecast indicates that, instead of a net receivable of \$7.4 million, there will now be a net payable of \$13.7 million to SSC U.S. The primary reason is the decline of production and intercompany sales at the La Tuque Mill to SSC U.S. as a result of market downtime taken at the La Tuque Mill to balance production with demand.
- 56) The April Revised Cash Flow Forecast projects that SSC Canada’s initial draw on the DIP Facility of \$40.0 million will have a net increase of \$4.6 million by July 3, 2009. The Company has forecast repayments on the DIP Facility throughout this forecast period as funds become available to do so. The Company made a \$5.0 million repayment on the DIP Facility on April 9, 2009.
- 57) During the forecast period, there are three monthly payments of \$750,000 to SSC U.S. for SSC Canada’s allocated share of the costs of centralized services. These costs are forecast to be part of the monthly intercompany settlement between SSC U.S. and SSC Canada.
- 58) The April Revised Cash Flow Forecast includes continued payments for current service obligations for the CCAA Entities’ various pension plans.

## **RESTRUCTURING EFFORTS TO DATE**

59) Since the commencement of the CCAA Proceedings, the Company has undertaken the following initiatives and actions in connection with its restructuring efforts:

(a) the Company has continued its efforts to sell the following closed facilities:

- Pontiac Mill in Portage-du-Fort, Quebec;
- the mill in New Richmond, Quebec;
- the mill in Bathurst, New Brunswick; and
- the corrugated container plant in Whitby, Ontario.

(b) As noted previously, the Company has repudiated certain real property leases, including four leases where a CCAA Entity was a tenant or subtenant.

**MONITOR'S RECOMMENDATIONS**


- 60) The stay provided for by the Stay Extension Order of this Honourable Court dated February 24, 2009, extended the stay period provided for in the Initial Order to April 30, 2009. In order to allow the Company sufficient time to continue the restructuring of its business, the Applicants are requesting a further stay to June 30, 2009.
- 61) 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 and develop a restructuring plan. The Company is operating in a manner consistent with its business plan and financial projections and the Monitor is not aware of any material changes to its operations in Canada or the U.S. since the commencement of the Proceedings.
- 62) The Monitor is of the view that the Company has acted, and continues 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 June 30, 2009.

All of which is respectfully submitted at Toronto, Ontario this 26 day of April, 2009.

**DELOITTE & TOUCHE INC.**

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

Per:

  
\_\_\_\_\_  
Paul M. Casey, CA-CIRP  
Senior Vice-President

**SCHEDULE "A"**

**SSC Canada Inc.**

**Cash Flow Forecast for the 13 week period from April 4, 2009 to July 3, 2009**

SSC Canada Inc.  
Combined Cash Flow Forecast for the 13 week period April 4 to July 3, 2009  
(in thousands of dollars)  
(in \$US\$)

	10-Apr	17-Apr	24-Apr	1-May	8-May	15-May	22-May	29-May	5-Jun	12-Jun	19-Jun	26-Jun	3-Jul	13 week total
<b>Receipts</b>														
Collection of Accounts Receivables - Third party	8,122	13,267	10,574	10,692	10,845	11,132	11,478	11,478	11,470	11,417	11,083	11,086	11,087	143,727
Collection of Accounts Receivables - Intra-company	-	-	17,475	-	-	-	31,907	-	-	-	25,428	-	-	74,811
Other Receipts - Intercompany	-	-	(2,457)	-	-	-	-	-	-	-	-	-	-	(2,057)
<b>Total Receipts</b>	8,122	13,267	25,592	10,692	10,845	11,132	43,386	11,478	11,470	11,417	36,512	11,086	11,087	216,432
<b>Disbursements</b>														
Purchases - Container Board	(177)	(177)	(21,673)	(180)	(201)	(201)	(24,184)	(208)	(201)	(211)	(23,321)	(211)	(208)	(71,361)
Purchases of other raw materials and supplies	(2,145)	(2,775)	(9,260)	(3,305)	(3,301)	(3,278)	(9,417)	(2,735)	(2,735)	(2,738)	(4,896)	(3,260)	(3,463)	(27,352)
Non inventory purchases and overheads	(5,507)	(5,294)	(2,201)	(4,998)	(4,935)	(4,228)	(3,835)	(4,885)	(3,996)	(4,895)	(4,895)	(4,895)	(4,895)	(35,645)
Employee related costs and benefits	(4,304)	(2,470)	(2,315)	(2,470)	(3,702)	(2,470)	(2,470)	(2,470)	(2,470)	(2,474)	(3,958)	(1,727)	(3,058)	(35,645)
Capital Expenditures	(85)	(325)	(85)	(85)	(85)	(85)	(85)	(85)	(85)	(81)	(85)	(85)	(85)	(1,749)
Non operational mill costs	(465)	(465)	(433)	(381)	(237)	(237)	(241)	(268)	(268)	(268)	(268)	(247)	(211)	(4,000)
Resituating Professional Fees	-	(500)	(200)	-	(200)	(300)	(200)	(200)	-	-	(750)	-	(200)	(2,000)
Applicant's share of centralized services costs	-	-	-	-	-	(60)	-	-	-	-	(60)	-	-	(1,260)
Pre-Filing Secured Debt Interest	-	(62)	(3,288)	(689)	-	(60)	-	(723)	-	-	(60)	-	(1,250)	(4,000)
DIP Loan Fees and Interest	-	-	(40,415)	(12,038)	(11,771)	(11,088)	(41,147)	(10,166)	(10,166)	(10,823)	(41,168)	(10,260)	(12,862)	(238,069)
<b>Total Disbursements</b>	(12,693)	(12,088)	(40,415)	(12,038)	(11,771)	(11,088)	(41,147)	(10,166)	(10,166)	(10,823)	(41,168)	(10,260)	(12,862)	(238,069)
<b>Net cash flow</b>	(4,572)	1,179	(14,422)	(1,356)	(926)	63	2,239	1,304	(55)	594	(4,887)	828	(1,805)	(21,637)
<b>Opening Cash Balance</b>	17,040	7,468	8,648	-	-	-	-	-	-	-	-	-	-	-
<b>Canadian DIP Loan Advance/(repayment)</b>	(5,000)	-	5,775	1,356	826	(63)	(2,239)	(1,304)	55	(594)	4,887	(828)	1,805	-
<b>Closing Cash Balance</b>	7,468	8,648	-	-	-	-	-	-	-	-	-	-	-	-
<b>Opening Canadian DIP Cumulative Draw</b>	40,000	35,000	35,000	40,775	42,131	43,058	42,994	40,756	38,452	39,507	38,813	43,600	42,772	-
<b>Canadian DIP Loan Advance/(repayment)</b>	(5,000)	-	5,775	1,356	826	(63)	(2,239)	(1,304)	55	(594)	4,887	(828)	1,805	-
<b>Closing Canadian DIP Cumulative Draw</b>	35,000	35,000	40,775	42,131	43,058	42,994	40,756	39,452	38,452	38,913	43,600	42,772	44,577	-

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

- 1 Collection of trade accounts receivable 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 collection of intercompany sales made by SSCCI to SSCE (SSCCI's parent) in the US, which are settled in the month following the sale.
- 3 SSCE and SSCCI each collect a portion of each other's sales. Amounts collected are allocated to the appropriate entity and net settled through the monthly intercompany settlement. In the week ended April 24th, SSCCI/SMBI have a net payable to SSCE.
- 4 Containerboard is the principal commodity used in the production of containers and packaging. It is principally purchased from SSCE in the US and is forecast to be settled once a month, one month in arrears.
- 5 Purchases of other raw materials (including wood) and other converting costs represent raw materials and services purchased from third parties and used in the manufacturing process of container board, containers and packaging. An estimate of the amount of post-filing credit that has been provided by these suppliers is reflected in the forecast.
- 6 Non-inventory purchases and overhead costs represent all other operating costs (except payroll) associated with production and sale of the products and administration of the business, including rent (for leased premises), utilities, freight, office, and selling costs. An estimate of the amount of post-filing credit that has been provided by these suppliers is reflected in the forecast.
- 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; payments in respect of past service costs are assumed to not be made, pending finalization of the restructuring plan.
- 8 Maintenance capital expenditures are assumed to be made on a COD basis and are based on estimates of actual capital expenditures necessary in the post-filing period.
- 9 Non-operational mill costs represent occupancy and other non-manufacturing costs associated with the four non-operating mills. An estimate of the amount of post-filing credit that has been provided by these suppliers is reflected in the forecast.
- 10 Restructuring professional fees represents the estimated fees of the Applicant's legal and financial advisers, the Monitor and its legal counsel that are forecast to be paid in the period ending July 13, 2009.
- 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 provided during each month will be invoiced to the Applicants in the following month and paid shortly thereafter.
- 12 The DIP agreement requires payment of interest on a monthly basis. DIP fees of U.S.\$3,000,000 are payable in April as apart of the intercompany settlement, reflecting recharges of amounts paid by SSCCI's parent that relate to the SSCCI DIP loan.
- 13 DIP loan advances represent advances to the Applicants pursuant to the DIP Loan Financing agreement. The DIP Loan availability is subject to a margining formula based on actual accounts receivable and inventory balances.
- 14 The Can\$/US\$ foreign exchange rate is assumed to be constant at C\$1.2877: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

**THIRD REPORT OF THE MONITOR  
DATED APRIL 26, 2009**

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