

**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

**SEVENTH REPORT OF THE MONITOR
DATED OCTOBER 2, 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 ("**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**"). The CCAA proceedings of the CCAA Entities are referred to herein as the "**CCAA Proceedings**".

- 2) Pursuant to the Initial Order, Deloitte & Touche Inc. was appointed monitor of the CCAA Entities as part of the CCAA Proceedings (the “**Monitor**”).
- 3) Also on January 26, 2009, Smurfit-Stone Container Corporation (“**SSCC**”) and certain of its direct and indirect subsidiaries, including Smurfit-Stone Container Enterprises Inc. (“**SSCE**”) and the CCAA Entities (collectively, the “**U.S. Debtors**”), filed for bankruptcy protection pursuant to Chapter 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” as defined in section 267 of the *Bankruptcy and Insolvency Act*, R.S.C., c. B-3, as amended (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 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, which stay was further extended to June 30, 2009, by a Stay Extension Order dated April 28, 2009, to September 30, 2009, by a Stay Extension Order dated June 25, 2009, and to December 24, 2009, by a Stay Extension Order dated September 25, 2009.
- 5) On March 12, 2009, this Honourable Court issued an Order approving a cross border insolvency protocol (the “**Cross-Border Protocol**”) between the U.S. Court and this Honourable Court.
- 6) On June 25, 2009, this Honourable Court issued a Claims Procedure Order (the “**Claims Procedure Order**”) approving a claims procedure in respect of the CCAA Entities and establishing a claims bar date of August 28, 2009 (the “**Claims Bar Date**”).

- 7) 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.
- 8) The purpose of this report (“**Seventh Report**”) is to comment on the motion being brought by Aurelius Capital Management, LP and Columbus Hill Capital Management, L.P. (collectively, the “**Noteholders**”) which seeks, amongst other things, an Order: (i) declaring that the interests of the officers and directors of Finance II, the Monitor and counsel to the CCAA Entities conflict irreconcilably with the interests of Finance II; (ii) declaring that counsel to the CCAA Entities cannot continue to act for Finance II; (iii) directing the officers and directors of Finance II to file an assignment in bankruptcy under the BIA in respect of Finance II; and (iv) discharging the Monitor vis-à-vis Finance II (the “**Finance II Motion**”). The Monitor supports the CCAA Entities position with respect to the Noteholders’ motion.
- 9) Unless otherwise provided, capitalized terms not defined in this Seventh Report are as defined in the Previous Reports or, if not defined therein, the Initial Order. SSCC, together with its direct and indirect subsidiaries, are referred to herein as the “**Company**” or “**Smurfit-Stone**”.

TERMS OF REFERENCE

- 10) In preparing this Seventh 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 Seventh Report.

- 11) Unless otherwise noted, all dollar amounts contained in this Seventh 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 Company currently employs approximately 2,600 people (both non-unionized and unionized) across Canada, and a further 17,000 people in the United States. Further background on the CCAA Entities and Smurfit-Stone is contained in the Previous Reports and the Jones Affidavit, all of which are available on the Monitor's Website.

FINANCE II OVERVIEW

- 13) As reported in the Report of Deloitte & Touche Inc. in its capacity as the Proposed Monitor of the Applicants dated January 26, 2009 (the "**Pre-Filing Report**"), Finance II is the issuer of certain unsecured notes due in 2014 with a principal aggregate amount outstanding of \$200 million (the "**Finance II Notes**"). The Finance II Notes are guaranteed by SSC U.S. and bear interest at a rate of 7.375% per annum.
- 14) Finance II has no active business operations or employees.
- 15) The Monitor understands that, shortly after the issuance of the Finance II Notes in July 2004, the proceeds of the Finance II Notes were loaned to SSC Canada. The terms of such loan are governed by a Loan Agreement between Finance II (as lender) and SSC Canada (as borrower) dated July 20, 2004. The interest payable by SSC Canada to

Finance II in respect of the loan has historically been satisfied by the issuance of Class “C” shares of SSC Canada to Finance II.

- 16) The assets available to satisfy the claims of the creditors of Finance II consist of the intercompany claim against SSC Canada and an alleged contribution claim against SSCE.

OVERVIEW OF THE PROCEEDINGS TO DATE

- 17) As reported in the Pre-Filing Report and the Previous Reports, Smurfit-Stone is an integrated company and the restructuring of the CCAA Entities is inextricably intertwined with the restructuring of the wider Smurfit-Stone enterprise in the Chapter 11 Proceedings.
- 18) As noted above, the CCAA Entities are also debtors in the Chapter 11 Proceedings and this Honourable Court has approved the Cross-Border Protocol, the purpose of which is to coordinate these CCAA Proceedings with the Chapter 11 Proceedings.
- 19) The DIP Facility approved by both this Honourable Court and the U.S. Court at the commencement of the Proceedings provides financing for both the CCAA Entities and the other U.S. Debtors and is necessary to ensure the Company has sufficient liquidity to fund its operational and capital expenses during its restructuring. The DIP Facility is cross-guaranteed and cross-collateralized as between the CCAA Entities and most U.S. based Smurfit-Stone entities.
- 20) Since the commencement of the Proceedings, Smurfit-Stone has taken significant positive steps towards a successful restructuring of its business, including, amongst other things:
 - (a) stabilizing its business and operations;
 - (b) rejecting certain executory contracts and unexpired leases and assuming other contracts and leases in the Chapter 11 Proceedings;
 - (c) divesting itself of certain non-core assets, including the Timberlands sale approved by this Honourable Court on August 17, 2009;

- (d) implementing a claims procedure in both the Chapter 11 Proceedings and these CCAA Proceedings; and
- (e) developing and presenting to the Official Committee of Unsecured Creditors in the Chapter 11 Proceedings an operational plan and preliminary plan of reorganization term sheet. Further, the Company has advised the U.S. Court that it plans to file a consolidated plan of reorganization and U.S. Court disclosure statement prior to January 21, 2010.

THE CLAIMS PROCEDURE ORDER

- 21) As noted at Paragraph 6 above, a Claims Procedure Order was granted by this Honourable Court on June 25, 2009, which established a Claims Bar Date for filing proofs of claim. A similar Order was made on June 23, 2009, by the U.S. Court establishing the same Claims Bar Date for the U.S. Debtors (the “**U.S. Claims Bar Order**”). Both the Claims Procedure Order of this Honourable Court and the U.S. Claims Bar Order treat intercompany claims as “excluded claims” for purposes of the Claims Bar Date.
- 22) As detailed in the Monitor’s Sixth Report dated September 22, 2009, in response to a motion filed by the Noteholders on July 22, 2009, the U.S. Court issued an Order which, amongst other things, confirmed that a claim by Finance II against SSCE, SSC Canada or any of the other U.S. Debtors would constitute a “Debtor asserting a claim against another Debtor” (as that phrase is used in the U.S. Claims Bar Order) and that, as such, no proof of claim needed to be filed by the Claims Bar Date for any Finance II Intercompany Claims (as defined in the U.S. Claims Bar Order). A copy of the Order of the U.S. Court resolving the motion of certain noteholders and clarifying bar date with respect to intercompany claims dated August 17, 2009, is attached as Appendix “A” to this Seventh Report.

THE NOTEHOLDERS’ MOTION

- 23) The motion brought by the Noteholders seeks, amongst other things, to have Finance II assigned into bankruptcy.

- 24) The Monitor observes that the impact of such an occurrence would include a default under the DIP Facility, potentially depriving the Company of access to its key source of liquidity during the Proceedings and thus jeopardizing the restructuring as a whole. At a minimum, assigning Finance II into bankruptcy would disrupt the consolidated, cross-border restructuring efforts being undertaken by Smurfit-Stone for the benefit of all of its stakeholders.
- 25) The Monitor is of the view that, having regard to the interests of all stakeholders, such a disruption is not warranted, especially at this stage of the Proceedings.
- 26) The operational plan and the plan of reorganization will be presented shortly and will address the claims of all creditors of the CCAA Entities and the U.S. Debtors. The Claims Procedure Order specifically excluded the filing of intercompany claims prior to the Claims Bar Date and the Noteholders have sought and received specific clarification from the U.S. Court that the U.S. Claims Bar Order does not require Finance II to file a proof of claim prior to the Claims Bar Date. Accordingly, the intercompany claims of Finance II will be addressed in the process leading up to the filing of a plan of reorganization.
- 27) As such, it is the Monitor's view that the continuation of the CCAA Proceedings in respect of Finance II does not prejudice the intercompany claims of Finance II.
- 28) The Monitor is highly cognizant of its status as an officer of this Honourable Court and its fiduciary duty to all stakeholders. In this regard, the Monitor will continue to oversee these CCAA Proceedings and report to this Honourable Court in the event it perceives there to be a conflict of interest which would prevent the Monitor from being able to fulfil its duties.

MONITOR'S RECOMMENDATIONS

- 29) It is common in large, integrated, cross-border reorganizations for CCAA and U.S. Chapter 11 proceedings to be dealt with on a consolidated basis with a single CCAA Monitor appointed by the Court to oversee all aspects of the reorganization of an integrated group for the benefit of all stakeholders of the Canadian debtors. These

restructurings will invariably include certain intercompany claims and interests which are addressed in a consolidated plan or plans.


- 30) In light of the negative impact the granting of the Noteholders' motion would have on the consolidated, cross-border restructuring of Smurfit-Stone, the Monitor supports the CCAA Entities' position with respect to the motion such that the Company can continue to move towards the development of a consolidated plan of reorganization for the benefit of all its stakeholders.

All of which is respectfully submitted at Toronto, Ontario this 2nd day of October, 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

APPENDIX "A"

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:

SMURFIT-STONE CONTAINER
CORPORATION, et al.,¹

Debtors.

Chapter 11

Case No. 09-10235 (BLS)

Jointly Administered

**ORDER RESOLVING MOTION OF CERTAIN NOTEHOLDERS AND CLARIFYING
BAR DATE WITH RESPECT TO INTERCOMPANY CLAIMS**

WHEREAS, on June 22, 2009, the Court entered an order (the "Bar Date Order") establishing August 28, 2009 (the "Bar Date") as the deadline for nongovernmental creditors and governmental creditors to file proofs of claim against the Debtors. Within five business days following the entry of the Bar Date Order, the Debtors provided notice of the Bar Date and Bar Date Order (the "Bar Date Notice") to all known persons and entities holding potential claims against the Debtors.

WHEREAS, the Bar Date Order provides that certain persons or entities are not required to file Proofs of Claim (as defined in the Bar Date Order) including "any Debtor asserting a claim against another Debtor."

WHEREAS, the Claims Procedure Order entered by the Ontario Superior Court of Justice on June 25, 2009 (the "Canadian Bar Date Order") established August 28, 2009 (the

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: Smurfit-Stone Container Corporation (1401), Smurfit-Stone Container Enterprises, Inc. (1256), Calpine Corrugated, LLC (0470), Cameo Container Corporation (5701), Lot 24D Redevelopment Corporation (6747), Atlanta & Saint Andrews Bay Railway Company (0093), Stone International Services Corporation (9630), Stone Global, Inc. (0806), Stone Connecticut Paperboard Properties, Inc. (8038), Smurfit-Stone Puerto Rico, Inc. (5984), Smurfit Newsprint Corporation (1650), SLP Finance I, Inc. (8169), SLP Finance II, Inc. (3935), SMBI Inc. (2567), Smurfit-Stone Container Canada Inc. (3988), Stone Container Finance Company of Canada II (1587), 3083527 Nova Scotia Company (8836), MBI Limited/Limitée (6565), Smurfit-MBI (1869), 639647 British Columbia Ltd. (7733), B.C. Shipper Supplies Ltd. (7418), Specialty Containers Inc. (6564), SLP Finance General Partnership (9525), Francobec Company (7735), and 605681 N.B. Inc. (1898). The Debtors' corporate headquarters are located at, and the mailing address for each Debtor is, 150 North Michigan Avenue, Chicago, Illinois 60601.

"Canadian Bar Date") as the deadline for the filing of certain proofs of claim against the Cross-Border Debtors who are subject to proceedings under the *Companies' Creditors Arrangement Act* (the "CCAA Proceeding") and similarly provided that any Debtor asserting an Intercompany Claim (as defined in the Canadian Bar Date Order) was not required to file a proof of claim prior to the Canadian Bar Date.

WHEREAS, on July 22, 2009, Aurelius Capital Management, LP ("Aurelius") and Columbus Hill Capital Management, L.P. ("Columbus" and with Aurelius, the "Noteholders") as managers of funds that are holders of 7 3/8% Senior Notes due July 15, 2014 (the "Notes") issued by Stone Container Finance Company of Canada II, a Debtor ("Finance II") filed a Motion of Certain Noteholders for an Order Related to the Contribution Claim of Stone Container Finance Company of Canada II Against Smurfit-Stone Container Enterprises, Inc. or, in the Alternative, Authorizing the Indenture Trustee or the Noteholders to File Proof of Claim Related to the Contribution Claim and Related Relief (the "Noteholder Motion").

WHEREAS, because Finance II is an unlimited liability company organized under the laws of Nova Scotia, the Noteholders assert a claim arises against Smurfit-Stone Container Enterprises, Inc. ("SSCE") arising under section 135 of the *Companies Act (Nova Scotia)* to require SSCE to make contributions to Finance II in amounts sufficient to satisfy all creditor claims against Finance II including, without limitation, claims against Finance II related to the Notes (the "Contribution Claim").

WHEREAS, the Noteholders assert that Finance II has certain claims against other Debtors including, without limitation, Smurfit-Stone Container Canada, Inc. (the "Other Intercompany Claims").

NOW, THEREFORE, IT IS HEREBY ORDERED THAT:

1. To the extent of the Contribution Claim or any other claim that may be asserted by or on behalf of Finance II against SSCE or any Other Intercompany Claim, in each case whether arising pursuant to contract, agreement, applicable law or otherwise (any such claim, the "Finance II Intercompany Claim"), any such Finance II Intercompany Claim would constitute a "Debtor asserting a claim against another Debtor" and pursuant to the Bar Date Order or the Canadian Bar Date Order no Proof of Claim is required to be filed asserting any Finance II Intercompany Claim prior to the Bar Date.

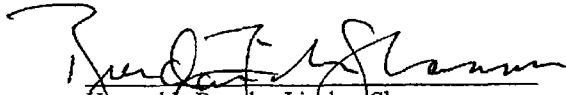
2. Nothing herein shall constitute agreement with, allowance of, or an admission as to the validity or existence of any Finance II Intercompany Claim and all rights and defenses with respect to any Finance II Intercompany Claim are hereby reserved.

3. This Order is intended solely for the purpose of administrative convenience and to clarify the terms of the Bar Date Order and the Canadian Bar Date Order and shall not affect the substantive rights of the Debtors, the Noteholders or any other party in interest with respect to the matters set forth herein.

4. The Court shall retain jurisdiction to hear and determine all matters arising from the implementation of this Order.

Dated: Wilmington, Delaware

8/17, 2009


Honorable Brendan Linchan Shannon
United States Bankruptcy Judge

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

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
SMURFIT-STONE CONTAINER CANADA INC., *et al.*

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

Proceeding commenced at Toronto

**SEVENTH REPORT OF THE MONITOR
DATED OCTOBER 2, 2009**

GOODMANS LLP
Barristers & Solicitors
250 Yonge Street, Suite 2400
Toronto, Canada M5B 2M6

Robert J. Chadwick (LSUC#: 35165K)
Christopher G. Armstrong (LSUC# 55148B)

Tel: 416.979.2211
Fax: 416.979.1234

Lawyers for the Monitor, Deloitte & Touche Inc.