

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
RICHMOND DIVISION

In re: Bear Island Paper Company, L.L.C.
Case No. 10-31202 (DOT)

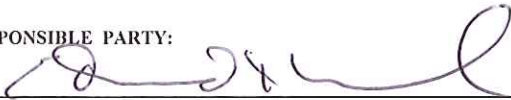
MONTHLY OPERATING REPORT

OCTOBER 1, 2011 THROUGH OCTOBER 31, 2011

Required Documents	Form No.	Documents Attached	Explanation Attached	Affidavit/Supplement Attached
Balance Sheet	MOR-1	X		
Income Statement	MOR-2	X		
Cash Receipts and Disbursements	MOR-3	X		
Accounts Receivable Aging	MOR-4a	X		
Aging of Postpetition Payables	MOR-4b	X		
Status of Postpetition Taxes	MOR-4c		X	
Bank Reconciliations	MOR-5a	X	X	
Investment Accounts	MOR-5b			
Cash	MOR-5c	X		
Insider Payments	MOR-6a			
Restructuring Professional Payments	MOR-6b	X	X	
Postpetition Status of Leases Payable	MOR-6c	X		
Adequate Protection Payments	MOR-6d			
Debtor Questionnaire	MOR-7a	X		X
Insurance	MOR-7b	X	X	

IN ACCORDANCE WITH TITLE 28, SECTION 1746, OF THE UNITED STATES CODE, I DECLARE UNDER PENALTY OF PERJURY THAT I HAVE EXAMINED THE FOLLOWING MONTHLY OPERATING REPORT (MOR-1 THROUGH MOR-7) AND THE ACCOMPANYING ATTACHMENTS AND, TO THE BEST OF MY KNOWLEDGE, THESE DOCUMENTS ARE TRUE, CORRECT AND COMPLETE. DECLARATION OF THE PREPARER (OTHER THAN RESPONSIBLE PARTY) IS BASED ON ALL INFORMATION OF WHICH PREPARER HAS ANY KNOWLEDGE.

RESPONSIBLE PARTY:



ORIGINAL SIGNATURE OF RESPONSIBLE PARTY

Edward D. Sherrick


PRINTED NAME OF RESPONSIBLE PARTY

Senior Vice-President

TITLE
November 30, 2011

DATE

PREPARER:



ORIGINAL SIGNATURE OF PREPARER

Eric A. Goebel

PRINTED NAME OF PREPARER

Manager, Cash/Treasury

TITLE
November 30, 2011

DATE

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BALANCE SHEET (MOR-1)
OCTOBER 31, 2011
(IN USD)

ASSETS

CURRENT ASSETS :

Cash		\$	20,382,548
Accounts Receivable - Trade			10,922,787
Accounts Receivable - Other			579,462
Due from White Birch Paper Company			928,851
Inventory:			
Raw Materials & Stores	\$	11,164,435	
Finished Goods		4,631,319	15,795,754
Timberdeeds			19,901
Deposits, Prepaid Expenses and Other			2,735,663
Total Current Assets			<u>51,364,966</u>

FIXED ASSETS:

Machinery & Equipment	\$	255,636,951	
Timberlands		1,067,654	
		<u>256,704,605</u>	
Less - Accumulated Depreciation and Depletion		(163,187,930)	<u>93,516,675</u>
Total Assets			<u>\$ 144,881,641</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts Payable and Accrued Liabilities		\$	8,986,862
Accrued Service Charge			82,229
Current Portion Capitalized Leases			0
Total Current Liabilities			<u>9,069,091</u>

LIABILITIES SUBJECT TO COMPROMISE:

Intercompany F.F. Soucy L.P.		5,738	
Intercompany Brant Industries, Inc		59,822	
Accounts Payable		8,166,695	
Intercompany White Birch Paper Company		135,854,779	144,087,034
Total Liabilities			153,156,125

STOCKHOLDERS' EQUITY

Contributed Capital			97,371,253
Retained Earnings (Deficit)			<u>(105,645,737)</u>
Total Stockholders' Equity			<u>(8,274,484)</u>
Total Liabilities and Stockholders' Equity			<u>\$ 144,881,641</u>

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INCOME STATEMENT (MOR-2)
MONTH OF OCTOBER
(IN USD)

	<u>2011</u>	<u>2010</u>
	<u>MONTH OF OCTOBER</u>	<u>MONTH OF OCTOBER</u>
SALES		
Gross	\$ 11,910,768	\$ 12,858,931
Freight	(739,247)	(871,108)
Net Sales	<u>11,171,521</u>	<u>11,987,823</u>
COST OF GOODS SOLD	<u>(10,190,998)</u>	<u>(9,803,191)</u>
Gross Profit (Loss)	980,523	2,184,632
GENERAL AND ADMINISTRATIVE EXPENSE		
Sales Commission	(357,323)	(385,768)
Write off of Goodwill	0	0
Other	(347,399)	(749,101)
Operating Profit (Loss)	<u>275,801</u>	<u>1,049,763</u>
OTHER INCOME (EXPENSE)		
Interest Income	0	0
Interest Expense	0	0
Other Income	0	0
Net Income (Loss)	<u>275,801</u>	<u>1,049,763</u>
DEFICIT BEGINNING OF PERIOD	(105,921,538)	(111,593,444)
PRIOR PERIOD ADJUSTMENT	0	0
DISTRIBUTION DURING THE PERIOD	<u>0</u>	<u>0</u>
DEFICIT END OF PERIOD	<u>\$ (105,645,737)</u>	<u>\$ (110,543,681)</u>

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CASH RECEIPTS AND DISBURSEMENTS (MOR-3)
OCTOBER 1, 2011 THROUGH OCTOBER 31, 2011
BOOK BALANCE (IN USD)

	CURRENT PERIOD 10/1/2011 - 10/31/2011	CUMULATIVE FILING TO DATE
BEGINNING CASH		
1. CASH - BEGINNING OF PERIOD	\$ 19,089,291	\$ 4,106,521
RECEIVABLES FROM WHITE BIRCH		
2. CASH RECEIVABLES	\$ 470,954	\$ 1,524,223
COLLECTION OF ACCOUNTS RECEIVABLE		
3. PREPETITION	\$ -	\$ 12,458,973
4. POSTPETITION	\$ 13,157,896	\$ 227,945,066
5. TOTAL OPERATING RECEIPTS	\$ 13,157,896	\$ 240,404,039
NON - OPERATING RECEIPTS		
6. LOANS & ADVANCES (ATTACH LIST)	\$ -	\$ -
7. SALE OF ASSETS	\$ -	\$ -
8. OTHER (ATTACH LIST)	\$ -	\$ -
9. TOTAL NON-OPERATING RECEIPTS	\$ -	\$ -
10. TOTAL RECEIPTS	\$ 13,628,850	\$ 241,928,262
11. TOTAL CASH AVAILABLE	\$ 32,718,141	\$ 246,034,783
OPERATING DISBURSEMENTS		
12. PAYROLL RELATED	\$ 1,290,112	\$ 28,256,779
13. CHEMICALS	\$ 826,247	\$ 18,466,270
14. CLOTHING, WIRES AND FELTS	\$ 154,788	\$ 4,122,727
15. SERVICES	\$ 492,978	\$ 9,405,885
16. EMPLOYEE RELATED	\$ 14,399	\$ 263,177
17. EQUIPMENT	\$ 574,272	\$ 12,939,171
18. FREIGHT	\$ 928,650	\$ 20,274,274
19. INVENTORY	\$ 255,303	\$ 8,990,456
20. LEASES	\$ 14,288	\$ 418,266
21. MISCELLANEOUS	\$ -	\$ 4,162,089
22. OFFICE SUPPLIES AND INSURANCE	\$ 212,795	\$ 4,578,003
23. OPERATING SUPPLIES	\$ 36,414	\$ 606,664
24. RECYCLED FIBER	\$ 1,360,952	\$ 23,201,055
25. WOOD FIBER	\$ 1,501,011	\$ 24,539,661
24. UTILITIES	\$ 3,034,236	\$ 48,749,782
25. TAXES	\$ 3,220	\$ 1,029,072
25. CORPORATE DISBURSEMENTS - MGMT FEE	\$ 384,610	\$ 7,110,590
26. TOTAL OPERATING DISBURSEMENTS	\$ 11,084,275	\$ 217,113,921
REORGANIZATION EXPENSES		
27. PROFESSIONAL FEES	\$ 322,467	\$ 7,446,463
28. U.S. TRUSTEE FEES	\$ -	\$ 163,000
29. OTHER (ATTACH LIST)	\$ -	\$ -
30. TOTAL REORGANIZATION EXPENSES	\$ 322,467	\$ 7,609,463
31. TOTAL DISBURSEMENTS	\$ 11,406,742	\$ 224,723,384
CASH HELD BY WHITE BIRCH PAPER		
32. CASH RECEIVABLE FROM WHITE BIRCH	\$ 928,851	\$ 928,851
ENDING CASH		
33. CASH - END OF MONTH	\$ 20,382,548	\$ 20,382,548

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ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND TAXES (MOR 4)
AS OF OCTOBER 31, 2011
(IN USD)

ACCOUNTS RECEIVABLE AGING (MOR-4a)	
AGING PERIOD	AMOUNT
1. 0-30	\$10,825,736
2. 31-60	\$1,507,443
3. 61-90	\$42,754
4. 91+	\$59,330
5. TOTAL ACCOUNTS RECEIVABLE	\$12,435,263
6. AMOUNT CONSIDERED UNCOLLECTIBLE	\$933,014
7. ACCOUNTS RECEIVABLE (NET)	\$11,502,249

AGING OF POSTPETITION PAYABLES (MOR-4b)					
PAYABLE	0-30 DAYS	31-60 DAYS	61-90 DAYS	91+ DAYS	TOTAL
1. ACCOUNTS PAYABLE	\$1,970,606	\$52,225	\$0	\$0	\$2,022,831

STATUS OF POSTPETITION TAXES (MOR-4c)				
	BEGINNING TAX LIABILITY	AMOUNT WITHHELD AND/OR ACCRUED	AMOUNT PAID	TOTAL
FEDERAL	See Note 1 Below			
1. WITHHOLDING				
2. FICA-EMPLOYEE				
3. FICA-EMPLOYER				
4. UNEMPLOYMENT				
5. INCOME				
6. OTHER (ATTACH LIST)				
7. TOTAL FEDERAL TAXES				
STATE AND LOCAL				
8. WITHHOLDING				
9. SALES				
10. EXCISE				
11. UNEMPLOYMENT				
12. REAL PROPERTY				
13. PERSONAL PROPERTY				
14. OTHER (ATTACH LIST)				
15. TOTAL STATE & LOCAL				
16. TOTAL TAXES				

NOTE 1: Bear Island Paper Company, L.L.C. ("Bear Island") believes that it is current on all tax obligations as of October 31, 2011.

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BANK RECONCILIATIONS, INVESTMENT ACCOUNTS AND CASH (MOR-5)
AS OF OCTOBER 31, 2011
(IN USD)

The debtor in possession must complete the reconciliation below for each bank account, including all general, payroll and tax accounts, as well as all savings and investment, accounts, money market accounts, certificates of deposit, government obligations, etc. Accounts with restricted funds should be identified by placing an asterisk next to the account number. Attach additional sheets if necessary.

BANK RECONCILIATIONS (MOR-5a)				
	ACCOUNT #1	ACCOUNT #2	ACCOUNT #3	TOTAL
A. BANK:	HSBC Bank USA, NA ⁽¹⁾	HSBC Bank USA, NA	HSBC Bank USA, NA	
B. ACCOUNT NUMBER:	XXX-XX011-7	XXX-XX064-8	XXX-XX063-0	
C. PURPOSE (TYPE):	Collection Acct. (USD)	Payables Disb. (USD)	Payroll Disb. (USD)	
1. BALANCE PER BANK STATEMENT	\$ -	\$ 21,111,211	\$ -	\$ 21,111,211
2. ADD: TOTAL DEPOSITS NOT CREDITED	\$ -	\$ -	\$ -	\$ -
3. SUBTRACT: OUTSTANDING CHECKS	\$ -	\$ (717,878)	\$ (2,987)	\$ (720,865)
4. OTHER RECONCILING ITEMS	\$ -	\$ (10,785)	\$ 2,987	\$ (7,798)
5. MONTH END BALANCE PER BOOKS	\$ -	\$ 20,382,548	\$ -	\$ 20,382,548
6. NUMBER OF LAST CHECK WRITTEN	N/A	23938	N/A	

NOTE 1: Amounts for HSBC account XXX-XX011-7 are aggregated with HSBC account XXX-XX064-8.

INVESTMENT ACCOUNTS (MOR-5b)							
BANK, ACCOUNT NAME & NUMBER	DATE OF PURCHASE	TYPE OF INSTRUMENT	PURCHASE PRICE	DATE OF PURCHASE	TYPE OF INSTRUMENT	PURCHASE PRICE	CURRENT VALUE
7. NONE							
8.							
9.							
10.							
11. TOTAL INVESTMENTS							

CASH (MOR-5c)	
12. CURRENCY ON HAND	\$ 700
13. TOTAL CASH - END OF MONTH (BOOK BALANCE)	\$20,383,248

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PAYMENTS TO INSIDERS, RESTRUCTURING PROFESSIONALS, POSTPETITION STATUS OF LEASES PAYABLE AND ADEQUATE PROTECTION PAYMENTS (MOR 6) OCTOBER 1, 2011 THROUGH OCTOBER 31, 2011 (IN USD)

OF THE TOTAL DISBURSEMENTS SHOWN FOR THE MONTH, LIST THE AMOUNT PAID TO INSIDERS (AS DEFINED IN SECTION 101 (31) (A)-(F) OF THE U.S. BANKRUPTCY CODE) AND TO PROFESSIONALS. ALSO, FOR PAYMENTS TO INSIDERS, IDENTIFY THE TYPE OF COMPENSATION PAID (e.g. SALARY, BONUS, COMMISSIONS, INSURANCE, HOUSING ALLOWANCE, TRAVEL, CAR ALLOWANCE, ETC.). ATTACH ADDITIONAL SHEETS IF NECESSARY.

INSIDERS (MOR-6a)			
NAME	TYPE OF PAYMENT	AMOUNT	TOTAL PAID TO DATE
1. None			
2.			
3.			
4.			
5.			
6. TOTAL PAYMENTS TO INSIDERS			

RESTRUCTURING PROFESSIONALS (MOR-6b) ⁽¹⁾					
NAME	INVOICE DATE	INVOICE NUMBER	PAYMENT DATE	AMOUNT PAID	PERIOD COVERED
1. AlixPartners LLP/White Birch	10/4/2011	2034583	10/12/2011	\$103,068	9/1/2011 through 9/30/2011
2. AlixPartners LLP/Bear Island	10/7/2011	2034584	10/27/2011	\$22,286	9/1/2011 through 9/30/2011
3. AlixPartners LLP/Bear Island	10/5/2011	6th Interim Fee	10/12/2011	\$1,519	5/1/2011 through 7/31/2011
4. FTI Consulting Inc	9/16/2011	6th Interim Fee	10/12/2011	\$65,000	5/1/2011 through 7/31/2011
5. Garden City Group	9/15/2011	11338	10/12/2011	\$7,017	7/1/2011 through 7/31/2011
6. Garden City Group	10/6/2011	11439	10/12/2011	\$32,566	8/1/2011 through 8/31/2011
7. Garden City Group	10/6/2011	Advance	10/12/2011	\$9,000	10/1/2011 through 10/31/2011
8. Hunton & Williams LLP	9/15/2011	September 2011	10/12/2011	\$17,537	5/1/2011 through 7/31/2011
9. Hunton & Williams LLP	9/15/2011	6th Interim Fee	10/12/2011	\$3,034	5/1/2011 through 7/31/2011
10. Kirkland & Ellis LLP	9/16/2011	August 2011	10/21/2011	\$118,525	8/1/2011 through 8/31/2011
11. Kirkland & Ellis LLP	9/15/2011	6th Interim Fee	10/12/2011	\$13,416	5/1/2011 through 7/31/2011
12. Latham & Watkins LLP	9/30/2011	110613204	10/27/2011	\$12,918	9/1/2011 through 9/30/2011
13. Lazard Freres Co., LLC	9/30/2011	September 2011	10/12/2011	\$100,000	10/1/2011 through 10/31/2011
14. Spotts Fain PC	10/11/2011	148555	10/27/2011	\$1,689	9/1/2011 through 9/30/2011
15. Troutman Sanders	9/15/2011	6th Interim Fee	10/12/2011	\$12,408	6/1/2011 through 8/31/2011
TOTAL PROFESSIONAL FEES				\$519,981	

NOTE 1: White Birch Paper Company ("White Birch") remits most, but not all, of the payments in exchange for services Bear Island receives regarding its Chapter 11 case. Subsequently, White Birch allocates charges to Bear Island using intercompany transfers. However, due to the cross-border nature of White Birch's business and this Chapter 11 case, payments identified in response to MOR-6b concern amounts expended not only for Bear Island's restructuring, but also for certain of its Canadian affiliates. These payments are identified in the aggregate amount and White Birch has made no attempt to apportion any amounts to the respective entities that incurred specific charges for restructuring services. This schedule excludes payments made by White Birch with respect to professional restructuring services provided solely to Canadian affiliates.

POSTPETITION STATUS OF LEASES PAYABLE (MOR-6c)			
NAME OF CREDITOR	SCHEDULED MONTHLY PAYMENTS DUE	AMOUNTS PAID DURING PERIOD	TOTAL UNPAID POSTPETITION
1. Toyota Financial Services	6	\$446	\$2,679
2. Wells Fargo Financial Leasing	0	\$0	\$0
3. Caterpillar Financial Services	4	\$2,822	\$11,288
4. Caterpillar Financial Services	0	\$2,853	\$0
5. NMHG Financial Services (VBS)	5	\$3,490	\$17,450
6. Ford Motor Credit (post petition)	21	\$465	\$9,770
7. VBS (post petition)	21	\$3,308	\$69,468
8. Pitney Bowes (post petition)	8	\$0	\$5,323
9. Edwards Business Systems (post petition)	44	\$904	\$35,663
TOTAL		\$14,288	\$151,641

ADEQUATE PROTECTION PAYMENTS (MOR-6d)				
NAME OF CREDITOR	CHECK NUMBER	CHECK DATE	DEPOSIT TYPE	CHECK AMOUNT
1. None				
2.				
3.				
4. TOTAL				

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QUESTIONNAIRE, INSURANCE AND INSTALLMENT PAYMENTS (MOR-7)

QUESTIONNAIRE (MOR-7a)		
	YES	NO
1. HAVE ANY ASSETS BEEN SOLD OR TRANSFERRED OUTSIDE THE NORMAL COURSE OF BUSINESS THIS REPORTING PERIOD?		X
2. HAVE ANY FUNDS BEEN DISBURSED FROM ANY ACCOUNT OTHER THAN A DEBTOR IN POSSESSION ACCOUNT?	X	
3. ARE ANY POSTPETITION RECEIVABLES (ACCOUNTS, NOTES, OR LOANS) DUE FROM RELATED PARTIES?	X	
4. HAVE ANY PAYMENTS BEEN MADE ON PREPETITION LIABILITIES THIS REPORTING PERIOD?		X
5. HAVE ANY POSTPETITION LOANS BEEN RECEIVED BY THE DEBTOR FROM ANY PARTY?	X	
6. ARE ANY POSTPETITION PAYROLL TAXES PAST DUE?		X
7. ARE ANY POSTPETITION STATE OR FEDERAL INCOME TAXES PAST DUE?		X
8. ARE ANY POSTPETITION REAL ESTATE TAXES PAST DUE?		X
9. ARE ANY OTHER POSTPETITION TAXES PAST DUE?		X
10. ARE ANY AMOUNTS OWED TO POSTPETITION CREDITORS DELINQUENT?		X
11. HAVE ANY PREPETITION TAXES BEEN PAID DURING THE REPORTING PERIOD?		X
12. ARE ANY WAGE PAYMENTS PAST DUE?		X

IF THE ANSWER TO ANY OF THE ABOVE QUESTIONS IS "YES," PROVIDE A DETAILED EXPLANATION OF EACH ITEM. ATTACH ADDITIONAL SHEETS IF NECESSARY.

INSURANCE (MOR-7b)		
	YES	NO
1. ARE WORKER'S COMPENSATION, GENERAL LIABILITY AND OTHER NECESSARY INSURANCE COVERAGES IN EFFECT?	X	
2. ARE ALL PREMIUM PAYMENTS PAID CURRENT?	X	
3. PLEASE ITEMIZE POLICIES BELOW.		

IF THE ANSWER TO ANY OF THE ABOVE QUESTIONS IS "NO," OR IF ANY POLICIES HAVE BEEN CANCELLED OR NOT RENEWED DURING THIS REPORTING PERIOD, PROVIDE AN EXPLANATION BELOW. ATTACH ADDITIONAL SHEETS IF NECESSARY.

INSURANCE POLICY ITEMIZATION (MOR-7b #3) (1)		
TYPE OF POLICY	POLICY NUMBER	CARRIER
Excess Fiduciary Liability	MNN587506	Axis Insurance Company
Property	1-72576-XG633	FM Global
Ocean Cargo	0025-89-08DTO	Chubb Group of Insurance Companies
Crime	10BDDAP1041	The Hartford
Pension and Welfare Benefit Plan Fiduciary Liability	14-MG-09-A9767	Houston Casualty Company
Directors, Officers and Organization Liability	14-MGU-09-A19390	U.S. Specialty Insurance Company
Excess Liability Insurance	TL2-621-093858-019	Liberty Mutual Insurance Company
Commercial Excess Liability Umbrella	YSM-CUP-7359N472-TIL-10	Travelers Property Casualty Company of America
Commercial General Liability and Employee Benefits	Y-660-77N4110-COF-10	The Charter Oak Fire Insurance Company
Commercial Automobile	Y-8107359N460-TIL-10	Travelers Property Casualty Company of America

NOTE 1: All insurance premiums are paid by White Birch and charged to Bear Island through intercompany transactions.

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RESPONSE TO QUESTIONS 2, 3 & 5 FROM MOR-7a

- Question #2** - White Birch remits most, but not all, payments in exchange for services related to Bear Island's restructuring, as well as insurance coverage. Subsequently, White Birch transfers charges allocated to Bear Island utilizing intercompany transfers.
- Question #3** - As part of the company's cash management system, White Birch receives customer receipts and deposits them into a White Birch owned lockbox. Then, when available, cash in an amount equal to the receivables owed to Bear Island is transferred from the White Birch lockbox to a Bear Island owned HSBC account. The cash receivable from White Birch to Bear Island as of October 31, 2011 totaled \$928,851. For additional information regarding Bear Island's cash management system, please see *Motion of Bear Island Paper Company, L.L.C. for Entry of an Order Authorizing, but not Directing, the Debtor to:* (A) *Continue Using Its Existing Cash Management System, Bank Accounts and Business Forms;* (B) *Maintain Existing Investment Practices;* and (C) *Continue Performing Ordinary Course Intercompany Transactions* [Docket No. 8].
- Question #5** - Although Bear Island is a borrower under the \$140,000,000 Senior Secured Super-Priority Debtor-in-Possession Term Loan Credit Agreement (the "DIP Facility"), all funds borrowed under the DIP Facility are held by White Birch and its Canadian affiliate F.F. Soucy Inc. & Partners L.P. No funds borrowed under the DIP Facility have been transferred to Bear Island.