

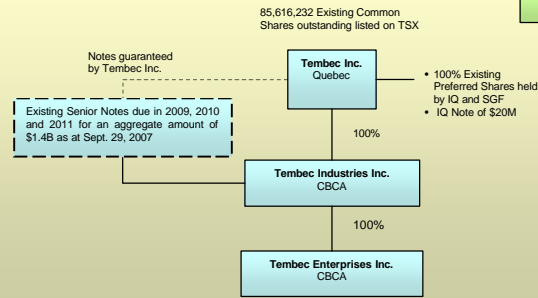
Financial Restructuring / Distressed Investing

New Cash	Private Placement	Rights Offering	New Senior Debt	Sale of Assets	DIP/CCAA
	Scope	Scope	Scope	Scope	Scope
	<ul style="list-style-type: none"> Equity (including complex equity securities, i.e. preferred shares with veto rights or TARP style) convertible debt involving an important dilution E.g. Abitibi, Katanga, Nexient 	<ul style="list-style-type: none"> Issuance to all existing shareholders of rights to subscribe for shares. Typically includes a backstop E.g. Tembec, Adaltis 	<ul style="list-style-type: none"> Typically new senior secured debt Opportunity to exploit weaknesses in security package Obtain consent if combined with exchange offer E.g. Abitibi, Bowater 	<ul style="list-style-type: none"> Sale of assets or other monetization options 	<ul style="list-style-type: none"> Interim financing to fund short-term liquidity requirements during restructuring process DIP-to-Buy is possible
	Constraints	Constraints	Constraints	Constraints	Constraints
<ul style="list-style-type: none"> Dilution over 25% requires shareholder approval and potential majority of the minority if private placement involves a related party and limit on discount to trading price of equity. TSX rules and securities laws contain financial hardship exemptions 	<ul style="list-style-type: none"> Over 25% dilution requires a prospectus Under 25% dilution can be done through 21 day offer by offering circular Rights must be listed Opportunity to receive backstop fee 	<ul style="list-style-type: none"> Existing debt may contain negative covenants limiting this option Likely to result in substantially higher financing costs 	<ul style="list-style-type: none"> Sale of substantially all of the assets requires shareholder approval Only a medium term strategy to deleveraging May involve a longer process and be less advantageous given economic environment Difficult to provide indemnity to purchaser Beware of insolvency, risk of reviewable transaction Break fee (ensure proper security is obtained) 	<ul style="list-style-type: none"> DIP Lender may require approval by CCAA Court of priming DIP charge Existing secured creditors may oppose priming charge, but existing lenders are "natural" DIP lenders. Usually expensive Securitization is a significant impediment (need to finance take-out) 	

Financial Deleveraging	Consensual	Exchange Offer	CBCA Arrangement (or equivalent)	CCAA
	Process	Process	Court Involvement	Court Involvement
	<ul style="list-style-type: none"> Involves renegotiating existing debt with a very limited number of debt holders Needs forbearance and/or a waiver of default to avoid accidental acceleration of debt (disclosure obligations and cross-defaults) Equity or quasi-equity could be used in order to compensate/finance creditors to compromise/refinance (see Private Placement Constraints above) Opportunity for new investors (major shareholders, strategic or financial players) given that creditors are generally free to dispose of their participation after an event of default E.g. Nexient 	<ul style="list-style-type: none"> Applicable to widely-held debt obligations Out of court process Must be open for 20 business days (but ability to amend terms) Exchange existing debt obligations for new notes with different financial and contractual terms Usually high minimum tender condition (66^{2/3} to 90%) to minimize holdouts (prisoner's dilemma) Need to consider terms of indentures (RATS principle) E.g. Abitibi, Bowater 	<ul style="list-style-type: none"> Court-supervised process. Court must sanction the plan. Court may grant limited stays and other useful orders 	<ul style="list-style-type: none"> Court intensive process Court will grant protection (stay of proceedings), name monitor and must sanction the plan
	Pros	Pros	Process	Process
	<ul style="list-style-type: none"> Easier to manage process and less costly 	<ul style="list-style-type: none"> Maintain maximum control over process No automatic acceleration of debt No <i>de facto</i> forum for disgruntled noteholders 	<ul style="list-style-type: none"> Class vote Plan is prepared pre-filing. May be negotiated pre/post-filing Vote of 2/3 in value of votes cast for each class Only affected security holders have a right to vote Shareholder vote usually required 	<ul style="list-style-type: none"> Plan may be pre-packaged (similar to out-of-court restructuring but seek court approval) or negotiated post-filing Double majority vote (50% of creditors present or represented at meeting representing 2/3 in value) for each class of votes cast (usually 2 classes: secured, unsecured) All classes must approve the Plan. Shareholder approval not required
	Cons	Cons	Pros	Pros
	<ul style="list-style-type: none"> Applies only to privately held or financial institution debt May only be useful when liquidation value is lower than debt amount Usually needs to be coupled with other financial deleveraging initiatives Unanimous consent required for implementation in most cases given RATS principle 	<ul style="list-style-type: none"> Holdouts will remain on the balance sheet and creates a free rider opportunity. Need to adjust offer structure or combine with other deleveraging initiatives Generally only involves accredited investors Tax planning steps must take place separately Harder to address immediate liquidity needs 	<ul style="list-style-type: none"> Compromise of debt Ability to impose terms on holdouts Flexibility Less court intensive than CCAA (E.g. no monitor) Third party releases under plan Should be no automatic acceleration of debt nor need for DIP Possible cross-border recognition (US, UK) 	<ul style="list-style-type: none"> Financial and operational restructuring Ability to impose terms on holdouts Plan may provide release of third parties Possible cross-border recognition (US, UK)
		Cons	Cons	
		<ul style="list-style-type: none"> No operational restructuring (except under certain statutes) Harder to address immediate liquidity needs Provides forum to disgruntled noteholders 	<ul style="list-style-type: none"> Stigma associated to insolvency proceedings Time consuming and costly Provides forum to disgruntled creditors Monitor has certain control over the process Cross default issues and acceleration of debt 	

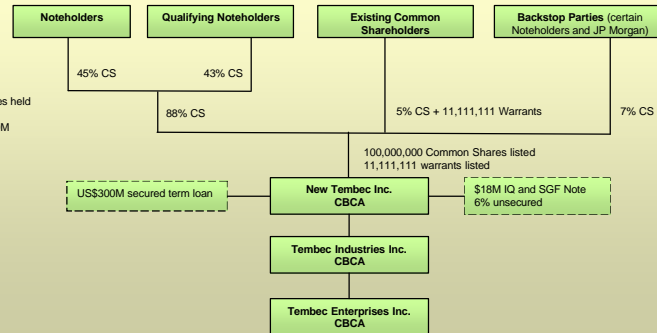
Operational Restructuring	Items to consider before initiating a CCAA process :	➔	CCAA What can be compromised?
	<ul style="list-style-type: none"> Forecasts and establish financing requirements, including post-filing liquidity requirements. Discussions with DIP lenders, if necessary. Verify D&O coverage. Priority charges for directors/officers, key employees and professionals Determine which creditors will be affected/unaffected (trade suppliers, employees, etc.) and which are critical suppliers. Determine whether certain contracts should be rejected/terminated shortly upon filing of CCAA proceedings. Consider Eligible Financial Contracts. All of the above "New Cash" and "Financial Deleveraging" is a good way to prepare and initiate discussions without acknowledging insolvency. 		<ul style="list-style-type: none"> All types of claims existing at the time of filing can be compromised. Company may terminate unfavorable executory contracts (E.g. leases, service contracts, etc.) Exceptions: collective agreements and pension plan obligations provided therein
			Impact on business during CCAA
			<ul style="list-style-type: none"> Co-contracting parties prevented from terminating contracts (except EFC's). Suppliers on COD basis

Tembec Initial Structure



Tembec Final Structure

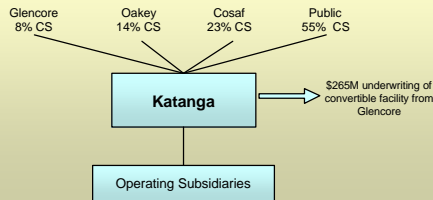
(CBCA Plan of Arrangement and Rights Offering)



Tax Considerations

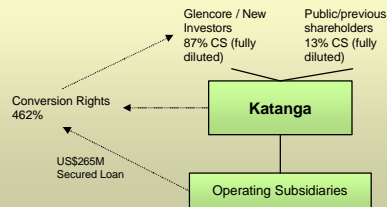
- Adverse tax consequences may result from any debt restructuring if adequate tax planning is not considered/implemented.
- Where debt is settled or extinguished for an amount lower than its principal amount, the difference constitutes a "forgiven amount" for tax purposes.
- Settlement, extinction or reduction of debt includes:
 - debt settled by the issuance of new debt (if principal of the new debt is lower than the original debt);
 - debt settled or extinguished by the issuance of shares (if the value of the shares is lower than the original debt);
 - Acquisition of debt by a non arm's length party;
 - debt forgiven totally or partially.
- Adverse tax consequences:
 - "Forgiven amount" automatically reduces tax attributes of the taxpayer such as prior years' net operating losses and capital losses and may reduce tax pools such as undepreciated capital costs, eligible capital property and cost of certain capital property.
 - 50% of remaining portion of the forgiven amount after deduction of tax attributes described above may have to be included in the debtor's income.
- Importance of adequate tax planning:
 - To preserve tax attributes which may reduce future tax burden or have value in the eyes of a potential acquirer.
 - To reduce income inclusion generating taxable income.
 - To avoid negative tax impact after the acquisition of a company in the course of or after a debt restructuring.

Katanga Initial Structure

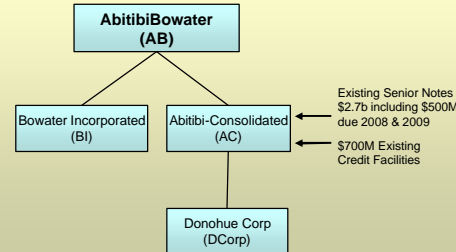


Katanga Final Structure

(Private Placement of Convertible Debt Involving Important Dilution)



Abitibi Initial Structure



Abitibi Final Structure

(Exchange Offer, Private Placements and New Senior Debt)

