

ONTARIO
SUPERIOR COURT OF JUSTICE - COMMERCIAL LIST

BETWEEN:

G.E. CANADA EQUIPMENT FINANCING G.P.

Applicant

- AND -

ATIKOKAN FOREST PRODUCTS LTD.

Respondent

APPLICATION UNDER SECTION 243(1) OF THE BANKRUPTCY AND INSOLVENCY
ACT, R.S.C. 1985, c. B-3, AS AMENDED AND SECTION 101 OF THE COURTS OF
JUSTICE ACT, R.S.O. 1990, c. C.43, AS AMENDED

REPORT OF PRICEWATERHOUSECOOPERS INC.
AS PROPOSED RECEIVER OF
ATIKOKAN FOREST PRODUCTS LTD.

December 30, 2010

INTRODUCTION

1. PricewaterhouseCoopers Inc. (“**PwC**” or the “**Proposed Receiver**”) understands that an application will be made before the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) by G.E. Capital Equipment Financing G.P. (“**GE**” or the “**Lender**”) for an order (the “**Receivership Order**”) appointing a receiver (the “**Receiver**”) pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**BIA**”), and section 101 of the *Courts of Justice Act* R.S.O. 1990 c. C.43, as amended over all the assets, undertakings and properties (the “**Property**”) of Atikokan Forest Products Ltd. and its subsidiaries (“**Atikokan**” or the “**Company**”).
2. PwC is a licensed trustee within the meaning of section 2 of the BIA. PwC has consented to act as Receiver in these proceedings in the event that this Honourable Court grants the Receivership Order.
3. This report has been prepared by the Proposed Receiver in support of an application to be brought by the Lender, for an order approving a sales and marketing process (the “**Sale Process**”) as hereinafter described, in respect of the Property, which if appointed as receiver, the Proposed Receiver would implement.
4. In preparing this report, the Proposed Receiver has relied upon unaudited and draft, internal financial information of the Company provided to it by the Lender. The Proposed Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information provided to it and expresses no opinion, or other form of assurance, in respect of the information contained in this report. The Proposed Receiver reserves the right to refine or amend its comments and findings as further information is obtained or brought to its attention subsequent to the date of this report.
5. Unless otherwise noted, all currency amounts contained in this report are expressed in Canadian dollars.
6. Capitalized terms not defined herein are as defined in the Affidavit of Christopher Rankin dated December 23, 2010 (the “**Rankin Affidavit**”) or in the proposed Receivership Order sought by GE.

BACKGROUND

7. As further described in the Rankin Affidavit, Atikokan was engaged in the business of producing a range of structural and dimensional softwood lumber, wood chips, and wood by-products for customers in Canada and United States. The Proposed Receiver understands that Atikokan has not been operating, in the normal course, since the fall of 2008, when its operations were idled. The

Proposed Receiver also understands that all, or virtually all, of Atikokan's employees were laid off following the cessation of normal course operations

8. As described in the Rankin Affidavit, a Notice of Intention to Enforce Security pursuant to section 244 of the BIA was issued by the Lender on or about April 2, 2010, whereby GE demanded payment from Atikokan of all obligations owing to it. Despite GE's demand for payment, the Proposed Receiver understands that the Company has failed to make payment or enter into a satisfactory arrangement with GE to rectify the default. The Proposed Receiver understands that the Company owes GE \$8,626,640.93, as at November 30, 2010.
9. In order to maintain the Property, the Proposed Receiver understands that Atikokan incurs ongoing, monthly costs associated with payroll in respect of two individuals who are maintaining and overseeing the Property, insurance, utilities, security and other basic maintenance and preservation costs (the "**Costs**"). The Proposed Receiver understands that GE has reviewed the estimated Costs and understands that GE has agreed to provide initial funding for the Costs, as well as professional fees associated with the receivership proceedings. However, the Proposed Receiver understands that the Lender is only prepared to fund the Costs for a limited period of time, so that the Receiver is able to undertake the Sale Process. Accordingly, the Receiver's borrowings will be limited to an amount not to exceed \$300,000. Funding of the receivership will be achieved by advances to the Receiver, if appointed, under Receiver's Certificates, which amounts would be secured by a charge over the Property.

SALE PROCESS AND THE PROPOSED RECEIVER'S RECOMMENDATION

10. The Proposed Receiver understands that, in connection with its application to this Honourable Court for the appointment of a receiver, GE will make an application to the Court for the approval of a sale process in respect of the Property.
11. In September 2010, GE engaged PricewaterhouseCoopers Corporate Finance Inc. ("**PwCCF**") to informally 'canvass the market' in respect of the Company and the Property. As a result of the response to the enquiries made by PwCCF, the Proposed Receiver understands that GE has determined that there may be sufficient interest in the marketplace to justify a formal sale process in respect of the Property.
12. In the event this Honourable Court grants the Receivership Order, the Proposed Receiver seeks this Honourable Court's approval of a sale process in respect of the Property (the "**Sale Process**"), the principal elements of which are as follows:

- a) Not later than ten business days after the Sale Process is approved by this Honourable Court the Receiver will:
 - i) advertise the Company and the Property and the Sale Process in the national edition of the Globe & Mail (the “**Advertisement**”); and
 - ii) send a teaser (the “**Teaser**”) and a non-disclosure agreement (“**NDA**”) to all parties identified by PwC as potentially having an interest in the Company and / or the Property.
- b) If requested by this Honourable Court, the Proposed Receiver will provide the Court a copy of the Advertisement and the Teaser for approval, prior to finalizing same.
- c) Not later than fifteen business days after the Sale Process is approved by this Honourable Court, the Receiver will establish an electronic data room containing information in respect of the Company and the Property;
- d) Parties expressing an interest in participating in the Sale Process (the “**Prospective Purchasers**”) will be required to execute the NDA, upon which Prospective Purchasers will receive available information in respect of the Company, including access to the Receiver’s data room, once established.
- e) The Receiver will arrange site visits to allow Prospective Purchasers the opportunity to visit the Company’s premises in order to assist Prospective Purchasers with their due diligence efforts.
- f) The Receiver will offer the Property for sale on an “as-is, where-is” basis, without representations or warranties with respect to the Company and / or the Property. Detailed terms and conditions of sale will be as set out in the form of asset purchase agreement (“**APA**”) provided by the Receiver to Prospective Purchasers. The Receiver will make a copy of the APA available in the data room by not later than January 28, 2011.
- g) Prospective Purchasers will have until 5 p.m. Eastern Standard time, on Wednesday, March 9, 2011 (the “**Bid Deadline**”) to submit a binding offer (“**Offer**”), which must include a cash deposit equal to 5% of the total purchase price for the Company and/or the Property subject to the Offer (the “**Deposit**”). The Deposit will be refunded in the event an Offer, as submitted, is not accepted by the Receiver.
- h) Offers are to be made using the APA as a template and are to be without conditions, other than a condition for Court Approval. Offers shall remain open for acceptance by the Receiver until at least

2:00 p.m. Eastern Standard Time, Tuesday March 15, 2011.

- i) Concurrent with undertaking the Sale Process, the Proposed Receiver will solicit offers from professional liquidators in respect of the Property. The deadline for the submission of definitive, binding and unconditional (other than a condition for Court Approval) offers to liquidate the Property (the “**Liquidation Offers**”) is the Bid Deadline. Liquidation Offers must include a cash deposit equal to 5% of the total purchase price or guaranteed payment amount in respect of the Property subject to the Liquidation Offer(s), which amount will be refunded in the event a Liquidation Offer(s), as submitted, is not accepted by the Receiver. Liquidation Offers shall remain open for acceptance by the Receiver until at least 2:00 p.m. Eastern Standard Time, Tuesday March 15, 2011.
 - j) Following the Bid Deadline, the Proposed Receiver will review and assess all Offers and Liquidation Offers received, if any, including reviewing same with GE, or any creditor with a prior ranking security interest in the Property, if any, other than creditors enjoying a statutory priority in respect of the Property (a “**Prior Creditor**”).
 - k) Based on its review of both the Offers and the Liquidation Offers, the Receiver will determine the most favourable outcome and will proceed to finalize the APA(s) with the successful offering party or parties, subject only to the approval of this Honourable Court, by March 25, 2011. If the Receiver is unable to finalize the APA with the successful offering party or parties, the Receiver shall be at liberty to finalize an APA with such other offering party or parties as it deems appropriate, subject to consulting first with GE and / or Prior Creditors.
 - l) The Receiver shall have the right to extend the timelines set forth in the Sale Process and described herein, only with the support of GE and / or Prior Creditors, and only if such extensions are for a period of time not exceeding ten business days from the date(s) contemplated under the Sale Process. All other extensions or modifications of the Sale Process shall require the approval of this Honourable Court.
 - m) In the event one or more APAs are approved by this Honourable Court, the Receiver will work with the successful purchaser(s) to close the transaction(s) forthwith thereafter.
13. Concurrent with its application to appoint PwC as receiver of the Property of Atikokan, GE is seeking the appointment of PwC as receiver of Northern Sawmills Inc. (“**Northern**”) in respect of the assets, undertakings and properties of Northern (the “**Northern Property**”). If this Honourable Court grants the Lender’s application for an order appointing PwC as receiver in respect of Northern, and if

the Court approves the proposed sales process in respect of the Northern Property, the Proposed Receiver intends to coordinate the sale process for Atikokan with an identical sale process for Northern, as:

- a) similar Property is being offered for sale in respect of both Northern and Atikokan;
 - b) potential purchasers for the Property and the Northern Property are very likely to be the same;
 - c) reduced professional costs will result, by minimizing the duplication of effort with respect to, among other things, preparing marketing materials and identifying potential purchasers and preparing sale documents, including the APA.
14. While efficiencies will be maximized where possible, if appointed as receiver of both Atikokan and Northern, the Receiver will ensure that costs associated with the sale of the Atikokan Property and the Northern Property are segregated and accounted for separately.

CONCLUSION

15. The Proposed Receiver is of the view that the Sale Process is reasonable in the circumstances. Atikokan's operations have been idled since sometime in 2008. Accordingly, there is no "going concern" business available to a Prospective Purchaser. Rather, a Prospective Purchaser may view the opportunity to purchase all of the Company's Property on an 'en bloc' basis, as being strategically attractive. The alternative to an 'en bloc' sale to a Prospective Purchaser is a liquidation of the Property. Under either scenario, the Proposed Receiver is of the view that the Sale Process should provide interested parties with sufficient time to evaluate the Property and to make an offer in respect of the Company and / or the Property, if interested.
16. The Proposed Receiver is filing this report in support of the Lender's application for the approval of the Sale Process.

All of which is respectfully submitted on this 30th day of December, 2010.

PricewaterhouseCoopers Inc.

as Proposed Receiver of the Company



Greg Prince
Senior Vice President