Court File No. CV-10-9042-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE - COMMERCIAL LIST

BETWEEN:

G.E. CANADA EQUIPMENT FINANCING G.P.

Applicant

- AND -

NORTHERN SAWMILLS INC.

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

FOURTH REPORT OF PRICEWATERHOUSECOOPERS INC. AS RECEIVER OF NORTHERN SAWMILLS INC.

March 9, 2012

INTRODUCTION

1. On January 4, 2011 (the **"Appointment Date"**), pursuant to an Order (the **"Northern Receivership Order"**) of the Ontario Superior Court of Justice, Commercial List (the **"Court"**), upon an application made by G.E. Canada Equipment Financing G.P. (**"GE"**), PricewaterhouseCoopers Inc. (**"PwC"**) was appointed as 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 (the **"CJA"**), over all the assets, undertakings and properties (the **"Northern Property"**) of Northern Sawmills Inc. (**"Northern"**).

2. On the same date, pursuant to an Order of the Court (the **"Atikokan Receivership Order"**), PwC was also appointed as receiver, pursuant to section 243(1) of the BIA and Section 101 of the CJA, over all the assets, undertakings and properties (the **"Atikokan Property"**) of Atikokan Forest Products Ltd. (**"Atikokan"**).

3. Pursuant to an Order of the Court also made on January 4, 2011 (the **"Northern Sale Process Order"**), the Receiver was authorized and directed to carry out and conduct a sale process in respect of the Northern Property, or any material portions thereof, substantially in accordance with the sale process (the **"Northern Sale Process"**) outlined in the Report of PwC as proposed receiver of Northern, dated December 30, 2010 (the **"Proposed Receiver's Report"**). Also, on January 4, 2011, the Court granted an order authorizing the Receiver to carry out a parallel sale process in respect of the Atikokan Property (the **"Atikokan Sale Process"**).

4. To date, the Receiver has filed three reports with the Court. The purpose of this, the Receiver's fourth report (the **"Fourth Report"**) is to advise and update the Court with respect to:

    a) the results of the Liquidation Process, as hereinafter defined; and

    b) the Receiver's activities with respect to the sale of Northern's real property (the **"Real Property"**);

and to seek an order of the Court:

a) approving an asset purchase agreement (the **"APA"**) between the Receiver and 2308703 Ontario Ltd. (**"2308703"**) in respect of the purchase and sale of the Real Property, and certain other of the Northern Property (the **"Purchased Assets"**) and vesting title in and to the Purchased Assets in 2308703;

b) temporarily sealing the un-redacted versions of the APA, pending the closing of the sale of the Real Property to 2308703; and

c) approving the Fourth Report and the activities of the Receiver as described herein.

5. In preparing the Fourth Report, the Receiver has relied upon unaudited and draft financial information of Northern. The 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 therein.

6. All monetary amounts referred to herein are expressed in Canadian dollars. Capitalized terms not otherwise defined herein are as defined in the Proposed Receiver's Report.

SALE OF NORTHERN'S PROPERTY EXCLUDING REAL PROPERTY

BACKGROUND

7. As described in the Receiver's third report to Court, dated July 27, 2011 (the **"Third Report"**), attached hereto (without appendices) as **Appendix "A"**, the Receiver entered into an agreement on April 29, 2011 with Eacom Timber Corporation (**"Eacom"**) for the purchase and sale of substantially all of the Northern Property (the **"Eacom Northern Transaction"**), subject to a number of conditions that were required to be satisfied in order to close the Eacom Transaction.

8. On May 20, 2011, Eacom advised the Receiver that it was not satisfied with the results of its due diligence in respect of the Northern Property that was subject to the Eacom Northern

Transaction and, accordingly, Eacom elected to terminate the Eacom Northern Transaction.

9. Subsequent to the termination of the Eacom Northern Transaction, the Receiver invited those parties who had expressed an interest in all or part of the Northern Property during the Northern Sale Process, other than Eacom, to re-submit revised offers for the Northern Property, other than the Real Property, by June 8, 2011.

LIQUIDATION OF CERTAIN PROPERTY BY MAYNARDS

10. As a result of the extension of the Northern Sale Process, the Receiver received two offers from liquidators in respect of the Northern Property. After reviewing the offers and consulting with GE and legal counsel to Lucky Star Holdings Inc. (**"Lucky Star"**), who also claimed a security interest in the Northern Property, the Receiver finalized an agreement for the liquidation of the Northern Property, excluding the Real Property, (the **"Agency Sale Agreement"**) with Maynards Industries Ltd. (**"Maynards"**) on July 22, 2011.

11. On August 12, 2011, the Court made an order (the **"Liquidation Order"**), approving the Agency Sale Agreement, as amended, between the Receiver and Maynards and authorized the Receiver to execute the Agency Sale Agreement and take such other steps as were necessary and desirable for the completion of the liquidation of the Northern Property, excluding Northern's real property (the **"Liquidation Process"**).

12. On September 28 and 29, 2011, Maynards conducted an auction of the Northern Property (the **"Northern Auction"**), the results of which are summarized as follows:

Northern Sawmills Inc. **Reconciliation of Liquidation Proceeds**	
	$
Total Proceeds from Liquidation	**2,180,874**
Less: Maynards Costs	(175,000)
Maynards Participation	(131,175)
Net Proceeds from Liquidation	**1,874,699**

13. In total, Maynards divided the Northern Property, which was subject to the Agency Sale Agreement, into 1,084 total lots that were offered for sale. Subsequent to the date of the auction, Maynards advised the Receiver that a total of 102 lots were not sold at the auction (the **"Unsold Lots"**). In addition, of the total lots offered for sale, 588 of the lots were sold on credit (the **"Credit Sold Lots"**). Subsequent to the completion of the Northern Auction, Maynards attempted to sell the Unsold Lots to parties who purchased certain of the Northern Property at the auction and to other parties known to Maynards as potentially having an interest in such property. As of the date of the Fourth Report, 105 lots remain unsold (the **"Remaining Lots"**), representing those Unsold Lots Maynards has unable to sell and certain of the Credit Sold Lots, for which payment ultimately was not collected from purchasers.

14. Included in the Total Proceeds from Liquidation summarized above are proceeds from the sale of the Disputed Collateral, as defined in the Third Report, which is approximately $300,000. The Receiver will provide further information to GE and Lucky Star to assist them in determining whether or not the parties are able to agree to a settlement with respect to the net amounts attributable to the Disputed Collateral. If an agreement is not achievable, the Receiver will include matters relevant to determining priority in and to the Disputed Collateral in its next report to the Court, which will be filed in support of a motion the Receiver intends to bring for the distribution of a portion of the net proceeds realized in respect of the Northern Property.

15. One of the Remaining Lots is a building that was previously used as a chromated copper arsenate plant but which was later converted to a copper azole plant (the **"CA Plant"**) which contains a number of storage tanks and vessels containing chemicals used as wood preservatives, which pose a potential environmental concern if they are not consumed during operations or removed. The disposition of the CA Plant is described more fully below.

16. The Receiver is of the view that it is not commercially reasonable or practical to continue with efforts to sell the Remaining Lots. The Remaining Lots were offered for sale in an open sales process and have remained unsaleable during the Liquidation Process,

notwithstanding Maynards' continued efforts to realize on the Remaining Lots. Accordingly, it is the Receiver's intention to abandon the Remaining Lots. However, subject to the approval of the Court, the proposed sale of the Real Property described below includes the assumption of certain other of the Property by 2308703, including the CA Plant.

17. Subsequent to the completion of the auction of the Northern Property that was subject to the Agency Sale Agreement, successful bidders were required to remove purchased Property from the Real Property, located at 490 Maureen Street, Thunder Bay, Ontario (the **"Northern Site"**).

18. On November 8, 2011, the Ontario Ministry of Labour notified Maynards that the Northern Site was not in compliance with certain Occupational Health and Safety (**"OHS"**) requirements. An order was made by the Ministry of Labour that required compliance with the OHS' requirements. Accordingly, the process of dismantling and removing the purchased Property was delayed while the Northern Site was brought into compliance with the OHS' requirements. Additional delays were experienced in connection with the removal of the purchased Property from the Northern Site, which resulted from further intervention by the OHS, weather-related delays and difficulties experienced by Maynards in coordinating the dismantling and demolition efforts of a number of purchasers and their agents. As a result of the delays that were experienced purchasers required additional time to remove purchased Property. Accordingly, Maynards, in consultation with the Receiver, granted extensions for the time for removal of the purchased Property.

19. As of the date of this Fourth Report, other than the Remaining Lots, all of the Northern Property purchased at the Northern Auction has been removed from the Northern Site, except for Northern Property purchased by 6322093 Manitoba Inc. (**"632"**) and / or its affiliates and 2308703. The Receiver has been advised by legal counsel to 2308703 and 632 that the parties entered into an agreement on December 14, 2011 governing 632's ability to continue to access the Northern Site subsequent to the closing of the sale of the Real Property, subject to the Court's approval, as described more fully below. Accordingly, the sale of the Real Property, as more fully described below, will not prejudice any parties who purchased Northern Property during the Liquidation Process.

SALE OF NORTHERN'S REAL PROPERTY

PROCESS FOR SALE OF REAL PROPERTY

20. As a result of the termination of the Eacom Northern Transaction, in addition to negotiating the Agency Sale Agreement with Maynards and completing the sale of certain of Northern's Property in the Liquidation Process, the Receiver contacted the second party who had expressed an interest in the Real Property during the Northern Sale Process (the **"Interested Party"**, a party related to 2308703) to investigate whether that party was still interested in purchasing the Northern Site.

21. During the Northern Sale Process, as part of its efforts to market the Real Property along with all of Northern's Property, the Receiver approached the City of Thunder Bay, legal counsel to Lucky Star and Northern Wood Preservers Inc. (**"NWP"**), an entity which owned land adjacent to the Real Property, to enquire as to their interest in acquiring the Real Property. The Receiver also marketed the Real Property to potentially interested parties at that time.

22. Following the termination of the Eacom Northern Transaction, the Receiver considered the merits of extending the Northern Sale Process in respect of the Real Property. The Receiver, in consultation with GE, did not ultimately seek to renew or extend the Northern Sale Process in respect of the Real Property, as:

    a) Northern's operations had been shut down commencing in 2007 and the site's appeal for use as a sawmill was clearly limited based on the results of the Northern Sale Process and current market conditions;

    b) the opportunity to acquire the Real Property was included in the Receiver's publication of the Northern Sale Process pursuant to the Northern Sale Process Order and the opportunity to acquire the Real Property was offered to any and all interested parties who were aware of the opportunity;

    c) information in respect of the Real Property was made available to any

parties who had expressed an interest therein, by accessing the data room established by the Receiver; and

d) in the Receiver's view, the environmental conditions associated with the Real Property and the adjacent NWP Land (defined below) diminishes the marketability of the Real Property.

23. Accordingly, the Receiver, in consultation with GE as the major secured creditor, was of the view that subsequent to the termination of the Eacom Northern Transaction it was practical to deal directly with the Interested Party with respect to the sale of the Real Property as the Receiver did not view the additional time and expense of reviving the Northern Sale Process, in respect of the Real Property, to be justified, in the circumstances.

OVERVIEW OF REAL PROPERTY AND ENVIRONMENTAL MATTERS

24. The Real Property is located in an industrial area in Thunder Bay, on the shore of Lake Superior. A diagram summarizing the Real Property is attached hereto as Appendix **"B"**.

25. In addition to the Real Property, NWP also owns land contiguous to the Real Property (the **"NWP Land"**), which is highlighted in Appendix "B". Although the NWP Land and the Real Property are legally divided, the Receiver understands that Northern's former sawmilling operations took place on the NWP Land and the Real Property.

26. The Receiver also understands that the Real Property and the NWP Land were collectively owned and / or operated in the past by both Abitibi-Consolidated Inc. (**"Abitibi"**) and Canadian National Railway Corporation (**"CN"**), in addition to being owned by NWP.

27. In August 1997, NWP, CN and Abitibi, along with Her Majesty the Queen in Right of Canada, represented by the Department of the Environment, and Her Majesty the Queen in Right of the Province of Ontario, represented by Ontario Ministry of Environment and Energy, (now the Ministry of the Environment or **"MOE"**) entered

into an agreement governing the remediation and containment of certain environmental conditions related to the NWP Land and / or the Real Property, known as the **"NOWPARC Agreement"**. The Receiver understands that the NOWPARC Agreement resulted from the detection of areas of environmental concern, including the identification of contamination in the sediment in the Thunder Bay harbour near to NWP's "manufacturing facility".

28. The Receiver understands that the remediation and containment project was completed in 2005, as evidenced by an agreement dated July 26, 2005 (the **"Completion Agreement"**).

29. The Receiver understands that NWP has continuing monitoring and reporting requirements with respect to the NWP Land and that it continues to oversee the operation of a water treatment plant located on the NWP Land. Although the NWP Land and the Real Property are legally divided, for practical purposes the Receiver understands that NWP requires ongoing access to the Real Property in order to carry out its duties and obligations as set forth in the NOWPARC Agreement and the Completion Agreement.

SUMMARY OF PROPOSED TRANSACTION

30. The Interested Party had offered to purchase the Real Property during the Northern Sale Process and an offer was made by a company related to 2308703 (the **"Initial Offer"**). As a result of the Receiver pursuing the Eacom Northern Transaction, the Receiver advised the Interested Party that it was not in a position to pursue the Initial Offer at that time.

31. During the Liquidation Process, the Receiver learned from Maynards that the Interested Party purchased one of the buildings at the Northern Auction. In addition, during the Liquidation Process, the principal of the Interested Party approached the Receiver to again discuss its interest in acquiring the Real Property.

32. After again discussing the opportunity to acquire the Real Property with the Receiver, the Interested Party made an offer to purchase the Real Property with a proposed

closing to take place at the end of November 2011.

33. In November 2011, the Receiver advised the Interested Party that the removal of Property from the Northern Site resulting from the Northern Auction was progressing more slowly than originally anticipated, as described earlier in this Fourth Report. As a result, the Receiver advised that a closing date in 2011 would not be achievable, unless the Interested Party was willing to oversee the removal of the purchased Property resulting from the Liquidation Sale.

34. As a result of its continuing discussions with the Interested Party, the Receiver learned that the Interested Party required certain concerns to be addressed to its satisfaction, as conditions precedent to its purchase of the Real Property, which included:

    a) debris resulting from the demolition of buildings during the Liquidation Process were required to be removed from the Real Property;

    b) property tax arrears would not be assumed by purchaser (the **"Tax Arrears"**); and

    c) chemicals located in CA Plant were required to be removed.

35. The Receiver obtained an estimate of the costs associated with the removal of debris (the **"Debris Removal Costs"**).

36. The Receiver received quotations from three waste removal companies with respect to the removal of chemicals from the CA Plant (the **"Chemical Removal Costs"**).

37. As a result of the estimated Chemical Removal Costs and Debris Removal Costs and, recognizing the potential concerns associated with overseeing the removal of chemicals from the CA Plant, the Receiver and 2308703 negotiated a reduction in the purchase price in respect of the Real Property. In exchange, 2308703 agreed to include the CA Plant as a purchased asset and agreed to assume responsibility for the removal of the chemicals in the CA Plant. In addition, in exchange for a contribution by the Receiver toward the Debris Removal Costs, 2308703 agreed to take responsibility for the

removal of debris and also agreed to assume another of the Remaining Lots, an electrical transformer with suspected PCB contamination. The reduction in the purchase price combined with the cash contribution to 2308703 in respect of the Debris Removal Costs will result in higher net realizations than if the Receiver were to bear the Chemical Removal Costs and the Debris Removal Costs directly.

38. With respect to the Tax Arrears, the Receiver applied for and received a Vacancy Rebate in January 2012 regarding municipal taxes levied by the City of Thunder Bay in 2011, which reduced the amount of the Tax Arrears from approximately $165,000 to approximately $120,000. Should the Court approve the sale of the Real Property to 2308703, upon closing the sale the Receiver will receive the balance of the purchase price owing. It is the Receiver's intention to deal with the distribution of Property, including the proceeds of sale of the Real Property, in a subsequent motion. Accordingly, the Receiver will hold the proceeds realized from the sale of the Real Property until the outcome of such motion is determined.

39. On March 9, 2012, the Receiver and 2308703 entered into the APA, a redacted copy of which is attached hereto as Appendix **"C"** hereto. An un-redacted copy of the APA will be filed with the Court, subject to the Receiver's request for a temporary sealing order, pending the closing of the sale of the Real Property to 2308703. The key conditions of the APA are as follows:

    a) the Purchased Assets include the Real Property, the CA Plant and a contaminated transformer;
    b) the Receiver is to provide vacant possession of the Real Property to 2308703. However, as described above, 2308703 and 632 have entered into a separate agreement governing the continued access of 632 to remove Property it purchased in the Northern Auction, in the event the Court approves the APA and the sale of the Real Property to 2308703 closes prior to 632 removing the Property it purchased;
    c) the APA includes an acknowledgement by 2308703 that NWP has an ongoing entitlement to a registered easement in respect of portions of the Real Property, to enable it to have access to the NWP Land;

d) the Receiver is required to obtain a vesting order in the form attached as schedule **"A"** to the APA; and

e) the proposed closing date shall be on or before March 20, 2012, or such later date as mutually agreed to by 2308703 and the Receiver (the **"Closing Date"**).

40. The Receiver is of the view that all of the conditions precedent to closing the sale of the Purchased Assets to 2308703 have been met or are capable of being met, on or before the Closing Date.

41. Although the formal consent of the MOE was not required in respect of the proposed sale, the Receiver was required to provide any party interested in "dealing with" the Real Property with a Certificate of Requirement, registered on title to the Real Property (the **"Certificate"**). The APA contains a specific acknowledgement by 2308703 that it has received the Certificate and other such documents referred to in the APA. The Receiver provided copies of various drafts of the APA to representatives of the MOE at various stages during its negotiation with 2308703 and kept the MOE apprised of the Receiver's efforts to sell the Real Property. This Fourth Report will be served on the MOE in connection with the relief sought by the Receiver as described herein. The Receiver understands from the MOE that it takes no position with respect to the sale of the Real Property to 2308703.

RECOMMENDATION

42. The sale of the Real Property to 2308703 is beneficial to stakeholders as it provides:

a) a transferee for the Real Property and avoids the need for the Receiver to abandon the Real Property;

b) a positive realization, a portion of which will be available for distribution to the Company's creditors;

c) for the clean-up of debris and chemicals on the Real Property; and

d) for the assumption of certain Purchased Assets with known or suspected environmental conditions.

43. The Receiver respectfully requests and recommends, for the reasons outlined above, that the Court make an Order, *inter alia*:

a) approving the APA and vesting the Company's right, title and interest in and to the Purchased Assets in 2308703, free and clear of all encumbrances (the **"Approval and Vesting Order"**);

b) Sealing the un-redacted version of the APA, pending the closing of the sale of the Real Property to 2308703; and

c) approving the Fourth Report and the activities of the Receiver as described herein.

All of which is respectfully submitted this 9th day of March, 2012.

PricewaterhouseCoopers Inc.
In its capacity as Receiver of Northern Sawmills Inc.

Greg Prince
Senior Vice President