

RSM Richter

Receiver's Fourth Report RE: CIC Pulp Ltd. operating as Meadow Lake Limited Partnership and Meadow Lake Pulp Ltd.

RSM Richter Inc.
Calgary, March 17, 2011

Table of Contents

1.	INTRODUCTION	1
2.	LANDFILLS	2
3.	DISTRIBUTION	4
4.	OTHER.....	6
5.	CONCLUSION AND RECOMMENDATION	6

CANADA)
PROVINCE OF SASKATCHEWAN)

IN THE QUEEN'S BENCH
JUDICIAL CENTRE OF REGINA

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

AND IN THE MATTER OF A PROPOSED PLAN OF ARRANGEMENT FOR THE
CREDITORS OF CIC PULP LTD. in its capacity as a general partner of MEADOW
LAKE PULP LIMITED PARTNERSHIP and
MEADOW LAKE PULP LTD. in its own capacity as agent and nominee for Meadow
Lake Pulp Limited Partnership

BETWEEN:

CIC PULP LTD., operating as MEADOW LAKE PULP LIMITED PARTNERSHIP
and MEADOW LAKE PULP LTD.

APPLICANTS

- and -

HSBC BANK CANADA, INVESTMENT SASKATCHEWAN INC.,
101069101 SASKATCHEWAN INC., GUSCO HANDEL G. SCHARFELD & CO.,
MILLAR WESTERN INVESTMENTS (SASKATCHEWAN) LTD.,
MILLAR WESTERN HOLDINGS (MEADOW LAKE) LTD.
and MILLAR WESTERN INDUSTRIES LTD.

RESPONDENTS

Receiver's Fourth Report
March 17, 2011

1. INTRODUCTION

- 1.1 This report is filed by RSM Richter Inc. ("Richter") in its capacity as Receiver and Manager (the "Receiver") of CIC Pulp Ltd. operating as Meadow Lake Pulp Limited Partnership and Meadow Lake Pulp Ltd. (collectively "MLPLP") pursuant to an Order of the Court of Queen's Bench of Saskatchewan (the "Court") made on October 1, 2007 (the "Receivership Order"). The Receiver last reported to the Court on July 30, 2009 (the "Third Report").

- 1.2 Richter was previously appointed monitor (the “Monitor”) of MLPLP pursuant to an Order of the Court made on December 28, 2005 granting MLPLP protection under the *Companies’ Creditors Arrangement Act* (“CCAA”). The Monitor was discharged on October 29, 2007.
- 1.3 On January 11, 2007, the Court approved the sale of MLPLP’s pulp mill (the “Mill”) to Meadow Lake Mechanical Pulp Inc. (“MLMP”). The sale closed on January 23, 2007 in accordance with the purchase and sale agreement. The Receiver holds the sale proceeds received from MLMP. The amounts are described later in this Report.
- 1.4 There were certain lands not acquired by MLMP which contained several landfills (the “Landfills”). The Phase II Environmental Site Assessment (“ESA”) undertaken determined there was some environmental contamination associated with the Landfills and a program was established to address the environmental contamination. The Receiver was not in a position to distribute the funds it holds to CIC Asset Management Inc. (“CIC”) (Investment Saskatchewan Inc. changed its name to CIC Asset Management Inc. on July 1, 2009) or to 101069101 Saskatchewan Ltd. (“101”) until such time as the program to address the environmental contamination was put in place and sufficient funds were set aside to deal with the environmental contamination.
- 1.5 The Receiver’s activities since the Third Report have been focused on addressing the environmental contamination at the Landfills.
- 1.6 The purpose of this report is to:
- Update the Court in respect of the Landfill remediation program; and
 - Respectfully recommend that the Court approve a partial distribution to the secured creditors of the funds held by the Receiver in the amount of \$35 million to CIC and 101 (with \$4.9 million of the distributed funds to be set aside for the Landfill Closure Plan as defined and described later in this Report).

2. LANDFILLS

Capping Plan

- 2.1 The Receiver has previously reported to the Court (at Section 3 of the Receiver’s First report and Section 2 of the Third Report) on the environmental contamination at the Landfills. The Phase II ESA assessed the environmental contamination as low, but the

capping of the Landfills was recommended accompanied by a long-term monitoring program of the site. The environmental firm retained by the Receiver, SLR Consulting (Canada) Ltd. (“SLR”), was engaged to design the Landfill caps and prepare a long-term monitoring program. The Saskatchewan Ministry of Environment (“SMOE”) was regularly consulted by SLR and the Landfill capping system design and long-term monitoring program was approved by SMOE.

- 2.2 SLR was engaged by the Receiver to assist in the preparation of a tender package to solicit prospective contractors to cap the Landfills. The tender process, the results thereof and the contractor selected to cap the Landfills were previously outlined to the Court in the Third Report. The Court approved the retention of Saskcon Repair Services Ltd. (“Saskcon”) to undertake the necessary repairs and remediation of the Landfills.
- 2.3 Upon obtaining Court approval, Saskcon commenced its work under the contract. There were some delays encountered due to inclement weather conditions and as certain procedures could not be undertaken in freezing weather, the Landfill capping was not concluded until early summer of 2010. The Receiver understands SMOE is satisfied with the Landfill capping. Some minor erosion was observed at the Landfill capping site due to significant rainfall and the lack of vegetation established on the Landfill cells. Repairs will be completed in spring of 2011.

Closure Plan

- 2.4 In early 2010 discussions with SMOE commenced in respect of a release to CIC and 101 of some of the funds held by the Receiver. Prior to SMOE authorizing a release of a portion of the funds held by the Receiver, SMOE requested that a preliminary decommissioning plan be prepared in respect of the Landfills.
- 2.5 SLR was retained by CIC to provide such a plan and SLR issued their Landfill Closure Plan on October 18, 2010. The Landfill Closure Plan included, *inter alia*, several procedures already undertaken such as the Landfill capping, an updated groundwater monitoring program which includes installation of additional ground water monitoring wells and which will be extended to January 2017 from January 2014, and proposed a contingency plan should the ground water monitoring results indicate that impacted ground water remains at unacceptable contamination levels.

- 2.6 The contingency plan, if necessary, would require SLR to conduct a human health and ecological risk assessment and undertake the installation of a clay and bentonite slurry cut-off wall to isolate any contaminated water. Whether implementation of the contingency plan will be necessary is unknown at this time and will likely not be known until January 2017, upon the conclusion of the ground water monitoring program.
- 2.7 SLR's Landfill Closure Plan also included a cost proposal for the ground water sampling program, the risk assessment and the installation of a slurry cut-off wall, which is summarized below:

Item	Estimated Cost
Ground water monitoring and sampling program 2013 to 2016	\$150,000
Human health and ecological risk assessment	250,000
Installation of clay and bentonite cut-off wall	4,500,000
Estimated Total	\$4,900,000

- 2.8 The Receiver understands that SMOE agrees with the Landfill Closure Plan and the estimated costs associated therewith. The Receiver also understands that SMOE consents to the Receiver distributing the funds it holds provided that \$4.9 million is held in a separate trust account to cover the estimated Landfill Closure Costs.
- 2.9 The Receiver provided a letter dated March 17, 2011 to SMOE setting out the terms and conditions in respect of setting aside the \$4.9 million. The \$4.9 million will be held in a separate trust account by CIC and the beneficiary of the trust account will be the Government of Saskatchewan as represented by the Ministry of Environment. Moreover, CIC will enter into a trust agreement with the Ministry of Environment within a reasonable period of time to address the Landfill Closure Plan. SMOE has executed the letter and returned a copy of same to the Receiver indicating its concurrence thereto.

3. DISTRIBUTION

- 3.1 The Receiver holds and has invested \$41,239,579 as at March 15, 2011 for the benefit of 101 and CIC. The funds are held by the Receiver pursuant to an Investment of Funds

Agreement and can only be distributed in accordance with an Order or Orders from the Court.

- 3.2 On January 13, 2006 the Court made an order, in the CCAA proceedings, allowing MLPLP to borrow up to \$15 million pursuant to a debtor-in-possession facility (the “DIP Facility”). CIC, MLPLP’s largest secured creditor, provided the DIP Facility. The DIP Facility bears interest at 15%. The DIP Facility was subordinate to amounts owed by MLPLP to HSBC Bank Canada (“HSBC”).
- 3.3 During the CCAA proceedings, the Monitor requested its legal counsel, McDougall Gauley LLP (McDougall”) provide a legal opinion (the “Opinion”) on the validity and enforceability of the respective security held by MLPLP’s primary secured creditors; HSBC, CIC, 101, Crown Investments Corporation of Saskatchewan (“Crown Investments”) and Millar Western Forest Products Ltd. (“MWF”). The debt and security of Crown Investments was assigned to CIC. The priority of the various security was set out in the Monitor’s Thirteenth Report dated January 18, 2007.
- 3.4 HSBC (and the Rural Municipality of Meadow Lake (“RMML”) in respect of unpaid property taxes) were previously paid in full subsequent to closing the sale of MLPLP’s pulp mill to MLMP in January 2007.
- 3.5 The amount owed to CIC under the DIP Facility is \$25,585,824 (\$15 million principal plus accrued interest since approximately January 13, 2006) as at February 28, 2011. Per diem interest is \$10,264. 101 is owed \$62,874,089 as at February 28, 2011. Per diem interest is \$11,316. From the proposed distribution of \$35 million, \$4.9 million will be set aside and held in respect of the Landfill Closure Plan and approximately \$25,585,824 will be paid to CIC pursuant to the DIP facility and approximately \$4,514,176 will be paid to 101.
- 3.6 Attached as Exhibit “1” is a copy of the Receiver’s Statement of Receipts and Disbursements (the “SRD”) for the period October 1, 2007 to February 28, 2011. The SRD reflects that after the distribution and setting aside of the \$35 million as described above, the Receiver will continue to hold approximately \$6,239,579 in its account.

4. OTHER

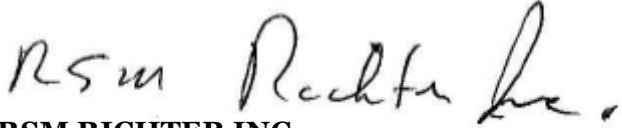
- 4.1 On October 19, 2010, the Receiver collected and deposited \$1,399,850 into the receivership bank account in connection with a class action lawsuit in which MLPLP was a participant. The class action lawsuit related to the purchase price of hydrogen peroxide which is a product used by pulp mills to produce pulp.
- 4.2 There remain some minor matters to conclude prior to the Receiver making an application for the final distribution of the balance of funds and seeking its discharge (i.e. GST returns, transfer of a small parcel of property to MLMP pursuant to a purchase option agreement and remedying the erosion at the Landfill cells). The Receiver anticipates it will conclude these matters in the next four to six months and will then make application to Court to distribute the remaining funds and seek its discharge.

5. CONCLUSION AND RECOMMENDATION

- 5.1 The Landfills have been capped and only some minor erosion matters need to be addressed. SMOE has agreed to the Landfill Closure Plan and the quantum of funds that will be set aside to meet that plan.
- 5.2 Accordingly, the Receiver respectfully recommends that the Court make an order approving the distribution of:
- i) \$25,585,824 plus interest from and after February 28, 2011 to the date of payment to CIC; and
 - ii) \$4,514,176 plus interest from and after February 28, 2011 to the date of payment to 101.

and the setting aside of the \$4,900,000 in respect of the Landfill Closure Plan.

All of which is respectfully submitted this 17th day of March, 2011.


RSM RICHTER INC.
IN ITS CAPACITY AS RECEIVER AND MANAGER
OF CIC PULP LTD. OPERATING AS
MEADOW LAKE PULP LIMITED PARTNERSHIP
AND MEADOW LAKE PULP LTD.

RSM Richter

Meadow Lake Pulp Ltd. Partnership - In Receivership
Statement of Receipts and Disbursements
October 1, 2007 to March 15, 2011
(Unaudited)

	<u>Notes</u>	<u>CDN\$ Account</u>	<u>US\$ Account</u>
Receipts			
Cash Transferred from Monitor		38,892,279	1,658,993
Transfer from MLPLP USD Trust Account	1	3,451,877	-
Refunds	2	2,359,297	-
Interest		2,138,562	24,595
Accounts Receivable	3	890,792	2,084,444
GST Refund		319,504	-
Total Receipts		<u>48,052,311</u>	<u>3,768,033</u>
Disbursements			
Transfer to MLPLP CDN Trust Account		-	3,377,538
Settlement with MLMP - Water Recovery Pond	4	2,000,000	-
Purchase Price Adjustment - Sale to MLMP	5	1,606,854	-
Landfill Capping Costs	6	1,102,569	-
CIC - Millar Western Settlement Funds	3	847,852	-
Consulting Fees	7	387,004	-
Receiver's Fees		248,767	-
Legal Fees		204,310	-
Operating Expenses		207,205	256,609
Vendor Commissions		-	132,280
GST Paid		111,975	-
Audit Fees		86,359	-
Insurance		5,040	-
Property Taxes		2,644	-
Bank Charges		1,315	1,606
Telephone Expense		837	-
Total Disbursements		<u>6,812,732</u>	<u>3,768,033</u>
Cash Available for Distribution		41,239,579	-
Proposed Distribution to CIC and 101069101 Saskatchewan Ltd.		35,000,000	-
Remaining Cash		<u>6,239,579</u>	<u>-</u>

Meadow Lake Pulp Limited Partnership - In Receivership
Notes to Statement of Receipts and Disbursements
October 1, 2007 to March 15, 2011
(Unaudited)

1. The US\$ account was closed by the Receiver subsequent to concluding all US\$ transactions.
2. Represents refunds comprising a recovery in respect of a class action lawsuit related to the pricing of hydrogen peroxide purchased by Meadow Lake Pulp Limited Partnership ("MLPLP") (\$1,399,849.79) and refunds of deposits placed by the Monitor to procure ongoing supplies and services for the pulp mill (\$959,447.15).
3. Includes \$847,851.97 paid by Millar Western Forest Products Ltd. ("MWF") in April 2009 and subsequently paid to CIC Asset Management Inc. ("CIC") in respect of certain amounts owed in connection with a settlement between MWF and CIC.
4. Settlement amount paid to Meadow Lake Mechanical Pulp ("MLMP") the purchaser of the pulp mill, to address the repairs in respect of the water recovery pond.
5. Closing adjustments in respect of the sale to MLMP. Comprised mainly of unfunded future reforestation fees owed by MLPLP to the company that harvested wood for MLPLP.
6. Costs to complete capping of the landfills.
7. Paid to SLR Consulting (Canada) Ltd. for engineering services, environmental reports, landfill capping and ground water monitoring.