

NO. S-206189  
VANCOUVER REGISTRY

**IN THE SUPREME COURT OF BRITISH COLUMBIA**

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

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, S.B.C 2002, c.57

AND

IN THE MATTER OF THE *CANADA BUSINESS CORPORATIONS ACT*,  
R.S.C. 1985, c. C-44

AND

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF 1057863 B.C.  
LTD., NORTHERN RESOURCES NOVA SCOTIA CORPORATION, NORTHERN PULP NOVA  
SCOTIA CORPORATION, NORTHERN TIMBER NOVA SCOTIA CORPORATION, 3253527  
NOVA SCOTIA LIMITED, 3243722 NOVA SCOTIA LIMITED, NORTHERN PULP NS GP ULC

**FOURTH REPORT OF THE MONITOR**

**ERNST & YOUNG INC.**

**October 30, 2020**

**TABLE OF CONTENTS**  
**TO THE**  
**FOURTH REPORT OF THE MONITOR**

INTRODUCTION .....	1
PURPOSE.....	3
TERMS OF REFERENCE .....	4
ACTIVITIES OF THE PETITIONERS SINCE THE THIRD REPORT .....	4
ACTIVITIES OF THE MONITOR SINCE THE THIRD REPORT .....	7
UPDATE ON THE ENVIRONMENTAL LIAISON COMMITTEE .....	8
NOTICES TO DISCLAIM OR RESILIATE AGREEMENTS.....	11
BUDGET MONITORING PROCESS.....	12
DETAILED BUDGET ACTIVITIES.....	12
Mill Operations and Maintenance.....	13
BH Operations & Decommissioning Plans .....	14
BH Decommissioning Lagoon and Settling Ponds .....	16
Woodlands Operations.....	17
Payroll and Employee Obligations .....	19
DETAILED INTERIM FINANCING BUDGET TO ACTUAL ANALYSIS.....	20
MONITOR’S COMMENTS AND RECOMMENDATIONS.....	24

**LISTING OF APPENDICES**

Interim Financing Budget to Actuals

Appendix A

## INTRODUCTION

1. On June 19, 2020 (the “**Filing Date**”), the Supreme Court of British Columbia granted 1057863 B.C. LTD., Northern Resources Nova Scotia Corporation, Northern Pulp Nova Scotia Corporation (“**Northern Pulp**”), Northern Timber Nova Scotia Corporation (“**Northern Timber**”), 3253527 Nova Scotia Limited, 3243722 Nova Scotia Limited, Northern Pulp NS GP ULC (collectively, the “**Petitioners**”) relief under the Companies’ Creditors Arrangement Act (Canada) (the “**CCAA**”).
2. The initial order (the “**Initial Order**”), included, inter alia, the following provisions:
  - a) appointed Ernst & Young Inc. (“**EYI**”) as monitor of the Petitioners in these CCAA proceedings (the “**Monitor**”); and
  - b) granted the stay of proceedings sought by the Petitioners (the “**Stay of Proceedings**”) to June 29, 2020 (the “**Stay Period**”);
3. The following stay extensions have since been granted by this Honourable Court:
  - a) on June 25, 2020, an order extending the Stay Period to July 3, 2020;
  - b) on July 3, 2020, an order extending the Stay Period to July 31, 2020;
  - c) on July 31, 2020, an order extending the Stay Period to August 21, 2020; and
  - d) on August 6, 2020 an order extending the Stay Period to December 31, 2020.
4. The Monitor has previously filed four reports in these CCAA proceedings, the “**First Report**”, “**Second Report**”, the “**Supplement to the Second Report**”, and the “**Third Report**” (together the “**Monitor’s Reports**”) all of which are posted on the Monitor’s website at [www.ey.com/ca/northernpulp](http://www.ey.com/ca/northernpulp).

5. Following hearings on July 31, 2020 and August 5, 2020, on August 6, 2020 (the “**August 6 Hearing**”) this Honourable Court provided its ruling on the relief sought and granted, *inter alia*, the following relief with reasons to follow:
  - a) approval of the proposed Interim Financing Facility of \$50 million with an Initial Advance of \$15 million and a related Interim Financing Charge of \$15 million (all terms defined in the Second Report);
  - b) approval of an amended and restated initial order (the “**ARIO**”), *inter alia*, instructing the Monitor to provide oversight with respect to the Petitioners’ use of funds advanced pursuant to the Initial Advance and ensure the Petitioners’ expenditures are generally consistent with the Initial Milestone Activities Schedule (the “**Interim Financing Budget**”) referred to in the Monitor’s Second Report and attached as Appendix “A” to the Supplement to the Second Report; and
  - c) directed the Monitor to file a report with the Court regarding the status of the Petitioners’ restructuring efforts and spending under the Interim Financing Budget by no later than October 31, 2020.
6. On August 6, 2020, this Honourable Court did not approve the Petitioners’ motion seeking approval to pay the pre-filing employee obligation payments. The reasons in respect of the August 6, 2020 Hearing were released on September 14, 2020.
7. In response to the Court’s decision, the Petitioners, in consultation with PEC, the Province of Nova Scotia (the “**Province**”) and the Monitor, proposed a new methodology to address the pre-filing employee obligations and on September 25, 2020, this Honourable Court granted an Order approving the following:
  - a) a subordinated interim financing facility (the “**Subordinated Interim Financing Facility**”), in the maximum principal amount of \$6,100,000, with an initial advance

of \$2,170,000, to allow Northern Pulp to make payments to current and former employees of Northern Pulp associated with (i) severance, (ii) salary continuation, and (iii) retiree benefits (the “**Employee Obligations**” as detailed in the Third Report);

- b) a charge against the Petitioners’ current and future assets for the purpose of securing the Subordinated Interim Financing Facility (the “**Subordinated Interim Financing Charge**”);
- c) a declaration that the Subordinated Interim Financing Charge ranks in priority to all existing liens, security interests, encumbrances, or claims, with respect to, concerning, or as and against all of the Petitioners’ Property, except (i) the existing charges granted in the CCAA Proceedings, including the Interim Financing Charge, and (ii) any existing security granted by the Petitioners to the Province for any obligations owing to the Province;
- d) payment of the Employee Obligations subject to the terms and conditions of the Subordinated Interim Financing Facility term sheet (the “**Subordinated Interim Financing Term Sheet**”); and,
- e) an increase of \$16,140 to the KERP Charge previously granted in the CCAA Proceedings, such that the maximum amount of the KERP Charge shall be \$358,347, and authorization to make the payments contemplated in the KERP in accordance with such increased amount.

## **PURPOSE**

- 8. The purpose of this fourth report (the “**Fourth Report**”) is to provide this Honourable Court with information with respect to the following:
  - a) a brief update on the Petitioners’ and the Monitor’s activities since the Third Report;

- b) an update on the Community Liaison Committee (as described in the Supplement to the Second Report and the sixth affidavit of Mr. Bruce Chapman). The Community Liaison Committee has since been renamed and will be referred to as the Environmental Liaison Committee (the “**ELC**”) in this Fourth Report;
- c) an update on notices of resiliating or disclaiming agreements (“**NRDs**”) sent by the Petitioners since the Third Report;
- d) the Monitor’s process to provide oversight with respect to the Petitioners’ use of funds advanced pursuant to the Initial Advance (the “**Budget Monitoring Process**”);
- e) the detailed activities and sub-activities that Northern Pulp has undertaken, to which the Monitor is overseeing pursuant to the Budget Monitoring Process;
- f) the analysis, as requested by this Honourable Court, comparing the Interim Financing Budget to the actual spend for the period from August 1, 2020 to October 25, 2020;
- g) a brief update on the Petitioners’ use of the Subordinated Interim Financing Facility and payments released discharging certain Employee Obligations; and
- h) the Monitor’s comments on the above.

#### **TERMS OF REFERENCE**

- 9. The Monitor refers readers to the terms of reference noted in the Second Report. In addition, all capitalized terms not otherwise defined herein have the meanings in the previous Monitor’s Reports.

#### **ACTIVITIES OF THE PETITIONERS SINCE THE THIRD REPORT**

- 10. Since the Third Report, the Petitioners have been engaged in the following activities:

- a) satisfying all terms and conditions of the Subordinated Interim Financing Term Sheet and coordinating an initial advance under the Subordinated Interim Financing Facility;
- b) working with the payroll provider to finalize calculations of the Employee Obligation amounts owing and discharging same utilizing funding advanced from the Subordinated Interim Financing Facility, the details of which are described in greater detail later in this Report;
- c) continuing hibernation activities at the Mill including, *inter alia*, landfill capping, roof scuppering, hibernation of boilers and industrial cleaning;
- d) reviewing options with respect to the winterization of the Mill, including identifying and sourcing relevant resources and parts as required;
- e) carrying out woodland activities including, *inter alia*, maintenance of roadways, coordination of stumpage agreements and land surveys for the sale of wood to sawmills, and entering into agreements with utility and mining companies requesting access to Northern Timber lands;
- f) communicating with government departments, primarily Transportation and Infrastructure Renewal (“**TIR**”) and Nova Scotia Environment (“**NSE**”) with respect to the decommissioning of the aeration stabilization basin (the “**ASB**”) adjacent to the Boat Harbour (“**BH**”) lagoon;
- g) communicating with the Province with respect to the Budget Monitoring Process;
- h) communicating with the Pictou Landing First Nations (the “**PLFN**”), TIR, NSE, Nova Scotia Lands (“**NSL**”), and other third parties and vendors with regards to the removal of a portion of a pipeline located at Indian Cross Point to Highway 348, Pictou Landing Nova Scotia (the “**Pipeline**”);

- i) preparing and releasing certain requests for proposals for projects related to the decommissioning of the ASB, landfill capping and the Pipeline removal, amongst other projects, and corresponding with various bidders with respect to such remediation activities;
- j) carrying out BH effluent treatment facility activities including ASB waste-water treatment, wetland studies, testing, reporting, assessment of effluent sludges communications with the NSE and submission of the Petitioners decommissioning plan;
- k) cleaning and decommissioning activities related to the south and north settling ponds, reviewing NSE requirements, hauling sludge to the existing landfill site and facilitating tests required by NSE to sign off on decommissioning activities;
- l) actively participated in communications with the Monitor, members and potential members of the ELC, and held four ELC meetings to carry out the objectives of the ELC (as discussed below);
- m) reviewed certain pre-filing contracts and agreements and in certain instances issued NRDs with respect to such agreements as a means to promote the success of the Petitioners future restructuring plan;
- n) actively participated in communications with various vendors, woodlands customers, suppliers, and other stakeholders;
- o) engaged in regular communications with the Monitor with respect to its duties under the ARIO to monitor the activities and cash flows of the Petitioners (the “**Budget Monitoring Process**”) and with the CCAA proceedings in general; and
- p) communicated with legal counsel with respect to the ongoing discovery process related to the judicial review action against the Province.



## ACTIVITIES OF THE MONITOR SINCE THE THIRD REPORT

11. Since the Third Report, the Monitor has been engaged in the following activities:
- a) actively participated in communications with the Province, its counsel, its advisors, and the Petitioners in respect of, *inter alia*, monitoring protocols and general progress of the CCAA proceedings;
  - b) corresponded with the Petitioners, its advisors and consultants, the Province, and the PLFN to assist the Petitioners with their creation of the ELC and carrying out its objectives;
  - c) worked closely with the Petitioners to develop the Budget Monitoring Process, advised the Petitioners with respect to day-to-day activities, monitored the Petitioners' activities, reviewed all post filing payments and compared same against the Interim Financing Budget;
  - d) corresponded with the Province's financial advisors to prepare and deliver regular workstream activity progress updates with budget to actual spending analysis;
  - e) confirmed the Petitioners' receipt of \$2.7 million under the Subordinated Interim Financing Facility and reviewed the support for and the payment of \$1.98 million towards the Employee Obligations;
  - f) assisted the Petitioners with their review and drafting of the NRDs and certain post-filing agreements;
  - g) corresponded with employees, creditors, suppliers, and other stakeholders with respect to the CCAA proceedings; and
  - h) prepared and filed this Fourth Report.

## **UPDATE ON THE ENVIRONMENTAL LIAISON COMMITTEE**

12. The ELC was designed to engage and solicit key stakeholder commentary to broaden the discussions surrounding environmental, community involvement, fishing, and marine issues, to define such issues and to formulate solutions, including suggestions with respect to the use of new technologies in the future operations of Northern Pulp and the development and construction of a replacement effluent treatment facility (the “**R-ETF**”).
13. The objectives of the ELC are as follows:
  - a) review, discuss and identify all environmental, forestry, community involvement, and marine issues of Northern Pulp’s operations from a public perspective and attach priorities to each issue;
  - b) identify potential environmental, forestry, community and marine solutions;
  - c) reach a consensus amongst ELC members on the issues and solutions; and
  - d) present findings to Northern Pulp for further consideration and action.

### ELC Composition

14. The Chair of the ELC is Mr. Dale Paterson of Benton Services Inc. Mr. Paterson is an experienced pulp and paper consultant engaged directly by Northern Pulp who has been working closely with Northern Pulp, the Province, PLFN, and various other stakeholders prior to and throughout these CCAA proceedings.
15. The ELC membership is comprised of representatives from Pictou County community, Municipality of Pictou County Councillors, retired and current Northern Pulp employees, owners of companies within Pictou County, retired and current fishers, professors, private landowners and medical doctors.

16. The ELC has advised the Monitor that it also approached PLFN to be part of the ELC. Although PLFN did not wish to formally participate in the ELC as a committee member, Northern Pulp and Mr. Paterson have been working closely with PLFN on environmental and decommissioning matters with respect to the Pipeline removal (as detailed below) and generally on matters relating to the site and potential R-ETF. The Monitor understands that Northern Pulp and the ELC provide copies of committee correspondence and meeting actions to PLFN and will continue to engage with the PLFN as the Petitioners' seek to build and strengthen its relationships with the PLFN and will address their concerns as part of the restructuring efforts.

Revised ELC Timeline

17. The following updated and proposed ELC meeting timeline is set out below:

Date	Meeting Objectives
October 7, 2020	ELC will meet to discuss the objectives outlined and workings defined
October 14, 2020	Identify all community environmental, community, forestry and marine issues
October 21, 2020	Prioritize all community, environmental and forestry issues
October 28 and November 4, 2020	Identify potential solutions
November 11, 2020	Identify ways to have the community be part of a future Northern Pulp
November 18, 2020	Committee to review progress internally
November 25, 2020	Committee to review findings with KSH (ETF design engineering firm)
December 2, 2020	Committee to review with Northern Pulp
December 9, 2020	Committee to review with the NSE
December 16, 2020	Northern Pulp receives final summary of reviewed plan

18. The Monitor has confirmed with Mr. Paterson that the October 7, 14, 21 and 28, 2020 meetings have been completed as scheduled. The Monitor does not attend ELC meetings, however, it reviews and relies upon the notes of each meeting to determine progress.

19. The Monitor understands, through discussions with the Petitioners, that the ELC has established a self-imposed (aggressive) timeline to consider stakeholder concerns, identify potential solutions for the R-ETF that address stakeholder concerns to the largest extent

possible. While the Monitor acknowledges the efforts to achieve the self-imposed deadline, the Monitor is conscious that given the extent of required stakeholder consultation, the magnitude of the issues to be considered in the context of the Mill operations, and the technical analysis required to consider alternative technologies, additional time may be required.

#### ELC Activities to Date

20. The Petitioners have informed the Monitor that the ELC has carried out the following activities:
- a) Held various discussions and worked with stakeholders to identify, engage, and secure the support of the 13 members of the ELC;
  - b) Worked with the Monitor, Northern Pulp, and other stakeholders to develop revised meeting timelines and detailed meeting objectives to ensure each meeting is productive and focused;
  - c) Held four meetings at which the Petitioners engaged in the following activities:
    - i. initiation of the committee and introduction of committee members;
    - ii. developed and refined a list of environmental and community concerns with the objective of ensuring stakeholder concerns were considered and addressed, as appropriate;
    - iii. discussed preliminary concerns that fell into the following categories:
      1. **Environmental**, including, *inter alia*, issues related to the ASB sludge, the R-ETF, effluents, alternative technologies, environmental impacts, monitoring, and controls;

2. **Community**, including, *inter alia*, issues related to stakeholder concerns, odors, pollution, communication with and engagement of stakeholders;
  3. **Forestry**, including, *inter alia*, forestry economics, stakeholder concerns, regulations, and forestry practices; and
  4. **Marine**, including, *inter alia*, water temperatures, effluent considerations, and other stakeholder considerations.
- iv. Reviewed and assigned priorities for the Environmental, Community, Forestry, and Marine consideration categories.

#### **NOTICES TO DISCLAIM OR RESILIAE AGREEMENTS**

21. On October 15, 2020, the Petitioners, with the approval of the Monitor, sent out three NRDs, each dated October 9, 2020 (the “**NRD Agreements**”).
22. In accordance with subsection 32(2) of the CCAA, parties to the NRD Agreements may, within 15 days after the NRD was issued and with notice to the Petitioners and to the Monitor, apply to the Court for an order that the NRD Agreements are not to be disclaimed or resiliated.
23. The Monitor is not aware of any objection to the NRDs as of the date of this Fourth Report.
24. The Monitor has subsequently identified that each of the disclaimer notices incorrectly states that the NRD Agreements will be disclaimed or resiliated on the “9th day of October 2020”. In accordance with subsection 32(5) of the CCAA, if no application for an order is made in accordance with subsection 32(2) of the CCAA, the NRD Agreements will be disclaimed or resiliated on the 15th day of November 2020, being 30 days after the day on which the NRDs were issued.

## **BUDGET MONITORING PROCESS**

25. As described in the Third Report, pursuant to the terms of the ARIO, the Petitioners in conjunction with the Monitor, developed a process to monitor the Petitioners' budget and their progress towards the activities specified within the Interim Financing Budget.
26. The Budget Monitoring Process includes a weekly review of the Petitioners' proposed payments, a review of all corporate bank statements and at least weekly discussions between the Monitor and the Petitioners with respect to the Petitioners' activities and sub-activities that feed into each of the projects detailed in the Interim Financing Budget. The Monitor also reviews actual spending compared to the Interim Financing Budget and discusses any variances with the Petitioners on a regular basis. The Interim Financing Budget was attached as Appendix A to the Supplement to the Second Report.

### Reporting to the Province

27. The Monitor has also facilitated meetings, discussions, and exchanged correspondence with legal counsel to the Province and its financial advisor, Deloitte, to promote transparency and address any concerns the Province may have with the Petitioners post-filing spending activities. The Province's financial advisor has regular updates with respect to the activities being undertaken by the Petitioners and the actual to budget analysis. The Province's financial advisor has been complimentary of the Budget Monitoring Process and the Monitor is not aware of any outstanding questions from the Province with respect to the monitoring or the ongoing reporting.

## **DETAILED BUDGET ACTIVITIES**

28. A summary of the activities and sub-activities that the Petitioners and other stakeholders have engaged in between August 1, 2020 to October 25, 2020 (the "**Budget Period**") are outlined below.

## Mill Operations and Maintenance

29. Mill Operations and Maintenance include the following activities and sub-activities:

- a) **Landfill Capping** – NSE requires the landfill site at the Mill to be capped with several layers of clay and other sediments to decommission it in accordance with provincial environmental regulations. Landfill capping is done in phases based on the type and quantity of capping material required in each area of the landfill. The Petitioners have completed a bid process, awarded bids and placed purchase orders for three phases of landfill capping. For Phase 1, the Petitioners have hauled capping material to the landfill site, graded and leveled the clay per the landfill capping plan; Phase 2 capping is 90% complete and Phase 3 is 50% complete. Further hauling of capping material, leveling and grading is ongoing for Phase 2 and Phase 3. Landfill capping activities are expected to be completed prior to December 31, 2020; however, these projects are subject to weather delays, and should the weather not cooperate, the landfill capping process may have to be halted during the winter months and recommenced in the Spring;
- b) **Roof Scuppering** – Roof scuppering is required to drain the flat roof of the Mill through a metal edge and down spout to the ground. The roof scuppering project was initiated prior to the Petitioners filing for creditor protection, however, it was temporarily halted due to the filing. The Petitioners subsequently entered into a post filing supply agreement with the pre-filing service vendor who has agreed to finalize the project. The roof scuppering project is expected to be completed prior to December 31, 2020;
- c) **Electricity** - Electricity used to power the Mill and BH operations is provided by Nova Scotia Power Inc. (“NSPI”). As detailed in the Second Report, a post-filing supply agreement was negotiated with NSPI, which provided for a prepayment of

certain post-filing costs and weekly payments of \$32,000 in advance of the receipt of electricity. However, since the Second Report was filed, the Petitioners actual electricity usage has only amounted to approximately \$21,000 per week. A modification to the NSPI post filing supply agreement has subsequently been agreed to; and

- d) **Maintenance and cleaning** – Maintenance and cleaning includes industrial cleaning, washroom cleaning and maintenance, manlift and elevator inspections, cleaning of the ash pond and hibernation of boilers. The ash pond cleaning has been finalized but all other maintenance and cleaning activities will be required on an ongoing basis.

### **BH Operations & Decommissioning Plans**

30. BH Operations include the following activities and sub-activities:

- a) **Wastewater** – the Petitioners have entered into a contract with the Municipality of Colchester to dispose of wastewater from BH through the Colchester Treatment Facility in Truro, Nova Scotia. The Municipality of Colchester post filing waste water treatment contract provides financially favourable terms compared to the anticipated costs for such services incorporated within the original budget. Throughout the summer of 2020, the Petitioners successfully consumed significant volumes of water through irrigation of Mill grounds; However, with respect to 2021 planning, the NSE now requires the Petitioners to prepare a new plan for wastewater removal as forebay water (non-toxic water) is no longer allowed to be released into grass adjacent to the Mill. The Petitioners are currently working with NSE to find a practical alternative solution including onsite treatment options;



- b) **Ditching around Canso** - Canso Chemicals (“**Canso**”) is a non-operating chemical chlorine facility located adjacent to the Mill. The core alkali plant at the Canso facility has been closed for a number of years; however, storm water runs between the properties. The Petitioners are engaged in ongoing discussions with Canso and the NSE to determine whether a ditch will need to be dug to ensure Canso run-off does not affect the Northern Pulp property. If a ditch is required, a request for proposal will be prepared and delivered to ditching design and installation bidders;
- c) **Pipeline Removal** – The Pipeline removal project has been a significant undertaking for multiple stakeholders involved with the decommissioning of BH. The Petitioners have worked closely with PLFN, the Province, its vendors and other third parties to develop an acceptable plan in relation to the removal of the Pipeline. Removal of the Pipeline involves cutting a 900 meter section of the Pipeline out of the ground, relocating the piping material to Northern Pulp’s property, removing the effluent and other sludge from the pipe, testing the underlying soils surrounding the Pipeline, and ensuring the lands where the Pipeline laid are remediated in line with NSE requirements and PLFN expectations. The Pipeline Removal commenced on October 21, 2020 and is expected to be completed in 10 days. Representatives from NSE, the Company and PLFN effectively collaborated on this project which helped to build trust between the parties. On the morning of October 21, 2020, PLFN held a ceremony to celebrate the removal of the Pipeline. PLFN is extremely pleased that Northern Pulp has proceeded with this project and invited representatives from Northern Pulp to join the celebration.

- d) **BH Decommissioning Planning** – On July 31, 2020, Northern Pulp submitted its initial decommissioning plan (the “**Decommissioning Plan**”) to the NSE. The Decommissioning Plan was not accepted by NSE which resulted in several meetings being scheduled between the NSE and the Petitioners during August, September and October 2020. On October 7, 2020, the NSE outlined further decommissioning requirements which included, *inter alia*, notifying adjacent landowners of the Decommissioning Plan, seeking written approval from TIR as owner of the Pipeline, developing a soil sampling plan, developing a secondary containment plan and resubmitting the plan for approval. Northern Pulp is currently working with the NSE to finalize the amended Decommissioning Plan that will satisfy the NSE and be acceptable to PLFN and NP.
- e) **Cleaning, testing, and assessments** – The Petitioners are working to ensure that all soil and water testing, wetlands studies, audits, and assessment of effluent sludges are being completed in line with the Ministerial Order and other NSE requirements.

### **BH Decommissioning Lagoon and Settling Ponds**

31. Decommissioning of the BH lagoon (the “**Lagoon**”) and settling ponds include the following activities and sub-activities:
- a) **Decommissioning of the Lagoon** – The Petitioners have established through independent testing that the Lagoon currently holds approximately 194,000 cubic meters of sludge at the bottom of the Lagoon (the “**Bottom Sludge**”), which existed prior to Northern Pulp’s purchase of the Mill in 1997. On top of the Bottom Sludge is approximately 81,000 cubic meters of sludge deposits produced by Northern Pulp during its period of operation (the “**NP Sludge**”). On top of the NP Sludge sits 435,000 cubic meters of water. The Petitioners are responsible for the costs

associated with the removal of the NP Sludge. At the time of the Interim Financing Budget being prepared, neither Northern Pulp nor the Province were aware that the Bottom Sludge existed. The discovery of the Bottom Sludge resulted in the Petitioners and the Province entering into several discussions with respect to a joint effort to remove all sludge material from the Lagoon but delayed the Petitioners original clean up plans in light of the added material being considered. The Petitioners and the Province ultimately determined they would independently proceed with respect to their respective clean up obligations. As such, Northern Pulp issued and received what they believe to be three quality bids from reputable firms with respect to the removal of the NP Sludge. The Petitioners are continuing to evaluate the most appropriate technology to remove the NP Sludge from the Lagoon. The NP Sludge removal project is expected to take approximately three (3) months to complete commencing in the Spring of 2021. Additional testing of the NP Sludge is required, and the Petitioners are working with the NSE to determine the final location where the NP Sludge will be disposed of.

- b) **Decommissioning of the Settling Ponds** – the Petitioners removed the sludge from the North and South settling ponds (the “**Settling Ponds**”). Additional testing is currently in progress to ensure that liners in the Settling Ponds are still intact and functioning properly.

### **Woodlands Operations**

32. The Woodlands operations consist primarily of the following activities:

- a) **Stumpage Revenues** – The Petitioners woodland operations oversee the development and approval of Crown, Northern Timber, and private harvest block plans, the submission of harvest packages to sawmills, the preparation of harvest schedules, and the delivery of harvested forest products to sawmills with harvest

plan monitoring. Northern Timber pays landowners stumpage fees and collects revenues from the participating beneficiary sawmills.

- b) **Road Construction Rebates** – The Petitioners woodland operations also oversee the planning and completion of woodland road construction and maintenance work including main road upgrading and replacing bridges across licensed areas to facilitate public access. Road expenses related to Crown lands plus an administration charge are reimbursed by the Province. Costs related to roads built on Northern Timber land are recovered through stumpage revenues.
  - c) **Silviculture Costs and Rebates** – Silviculture is required to control the regrowth and composition of the forests that have been harvested. Crown lands are replanted, and the Province provides a rebate to Northern Pulp for spending on silviculture activities.
  - d) **Nursery** – Northern Pulp owns a nursery that grows and sells seedlings required for silviculture planting. The costs of the nursery operation are fully recovered through seedling sales.
  - e) **Other contracts** – Northern Timber enters into agreements from time to time to allow access to their lands for the purposes of utility exploration or mining drilling. Northern Timber receives payment for granting the access rights at no cost to the Petitioners.
33. Forestry Operations are profitable and provide a source of net positive cash flow to the Petitioners. Furthermore, it is the Petitioners' view that the woodland operations must be maintained throughout the CCAA administration to ensure critical industry relationships are sustained and remain accessible when the Mill reopens. The woodland operations continue

to support the forestry community including local sawmills and other sector participants who are critical to the long-term viability of the Mill and the Petitioners restart plans.

## **Payroll and Employee Obligations**

### Current Employees

34. The Petitioners currently employ two (2) full-time hourly mill employees, six (6) seasonal hourly nursery employees and 17 salaried employees. The total bi-weekly payroll of the current employees is approximately \$90,000.

### Employee Obligations

35. The Third Report of the Monitor detailed the severance, salary continuance and retiree benefit payments proposed to be paid with funds advanced under the Subordinated Interim Financing Facility. On September 25, 2020, this Honourable Court approved the Subordinated Interim Financing Facility and the payment of the Employee Obligations.
36. On September 30, 2020, the Petitioners received \$2.7 million from the Subordinated Financing Facility Lender as an interim funding advance. On October 15, 2020, the following payments were released to the affected employees:
- a) Salary continuance payments of \$396,029, including source deductions; and
  - b) Severance payments of \$1,584,926, including pension contribution and source deductions.
37. Pension payments relating to the severance and salary continuance payments above in amount of \$133,112 are scheduled to be paid on October 30, 2020.
38. Retiree benefits are being paid on an ongoing basis by PEC. Northern Pulp is currently reconciling the amount due to PEC for reimbursement of retiree benefits and will reimburse PEC in due course.

## DETAILED INTERIM FINANCING BUDGET TO ACTUAL ANALYSIS

39. The Monitor, in consultation with the Petitioners, has prepared a spending analysis comparing the actual cash flow activity for the three-month (approximate) period August 1, 2020 to October 25, 2020 against the 5-month Interim Financing Budget. The Interim Financing Budget alongside a detailed budget to actual variance is attached hereto at **Appendix “A”**.
40. Comments with respect to the primary spending differentials achieved to date compared to the Interim Financing Budget follow:

	Actuals 3 Months	Interim Financing Budget 5 months	Variance
<b>Mill operations</b>			
Landfill capping	\$ (782,771)	\$(575,000)	\$(41,082)
Roof scuppering	-	(74,750)	74,750
Electricity	(105,981)	(449,650)	343,669
Cleaning and other	(127,454)	(166,750)	39,296
<b>Total mill operations</b>	<b>\$(849,517)</b>	<b>\$(1,266,150)</b>	<b>\$416,633</b>
<b>BH operations</b>			-
Wastewater treatment	(140,632)	(1,797,450)	1,656,818
Ditching around Canso	-	(431,250)	431,250
Electricity	(63,019)	(267,375)	204,356
Decommissioning Plan & Pipeline Removal	(24,313)	(115,000)	90,687
Cleaning, testing and other	(57,547)	(137,598)	80,051
<b>Total BH operations</b>	<b>\$(285,511)</b>	<b>\$(2,748,673)</b>	<b>\$ 2,463,162</b>
<b>BH decommissioning</b>			-
Lagoon	-	(3,450,000)	3,450,000
Settling Ponds	(112,988)	(184,000)	71,012
Ditches and surveys	-	(69,000)	69,000
<b>Total BH decommissioning</b>	<b>\$(112,988)</b>	<b>\$(3,703,000)</b>	<b>\$3,590,012</b>
<b>Environmental assessment</b>			-
Environmental assessment costs	-	(360,525)	360,525
<b>Total Environmental assessment</b>	<b>\$ -</b>	<b>\$(360,525)</b>	<b>\$360,525</b>
<b>Payroll &amp; former Employee Obligations</b>			-
Hourly and salary payroll	(406,002)	(723,884)	317,882
Severance, salary continuance, retiree benefits	(1,980,955)	(2,896,498)	915,543
Other HR costs	(43,596)	(187,220)	143,624
<b>Total payroll &amp; former Employee Obligations</b>	<b>\$(2,430,553)</b>	<b>\$(3,807,602)</b>	<b>\$1,377,049</b>

<b>Administrative (non-restructuring)</b>			-
PEC Management Fees	(415,918)	(828,000)	412,082
Professional fees	(339,263)	(1,072,375)	733,112
Property taxes, insurance & other	(235,393)	(843,988)	608,595
<b>Total administration (non-restructuring)</b>	<b>\$(990,574)</b>	<b>\$(2,744,363)</b>	<b>\$1,753,789</b>
<b>Other receipts</b>			-
Woodlands net receipts	331,296	436,254	(104,958)
HST received & CEWS subsidy	611,267	-	611,267
<b>Total other receipts</b>	<b>\$942,563</b>	<b>\$436,254</b>	<b>\$506,309</b>
			-
<b>OPERATING CASH FLOW</b>	<b>\$(3,726,580)</b>	<b>\$(14,194,059)</b>	<b>\$10,467,479</b>
<b>Restructuring costs</b>			-
Professional fees - restructuring	(802,033)	(1,581,250)	779,217
<b>Total restructuring costs</b>	<b>\$(802,033)</b>	<b>\$(1,581,250)</b>	<b>\$779,217</b>
Beginning cash balance	5,478,214	4,586,154	892,060
Net inflow (outflow)	<b>\$(4,528,613)</b>	<b>\$(15,775,309)</b>	<b>\$11,246,696</b>
Interim Financing	15,000,000	15,000,000	-
Subordinated Interim Financing	2,700,000	2,700,000	-
<b>Ending Cash Balance</b>	<b>\$18,649,601</b>	<b>\$6,510,845</b>	<b>\$12,138,756</b>

### Mill Operations

41. Landfill capping expenditures have exceeded budget as the total area of land needing to be capped and the amount of clay required to cap the land exceeded original projections. It was not possible to accurately predict the area and clay quantity until the testing and assessment of the landfill were completed in August and September 2020. The requirements to cap the land were discussed and agreed with the NSE. The total project is now expected to cost approximately \$1.3 million.
42. The roof scuppering spending variance is timing related as the project is now expected to be completed prior to December 31, 2020.
43. The electrical spending variance reflects both a timing and permanent variance as the monthly power costs required to sustain the base operation is approximately 33% less than originally forecast.

### BH Operations

44. Wastewater treatment is significantly under budget due to a) the quality of certain volumes of waste water being less contaminated than forecast which permitted the Petitioners to successfully for irrigation; b) a dry Nova Scotia summer reducing the volume of rainwater needing to be captured; and c) the Petitioners securing a replacement treatment contract with the Municipality of Colchester on more favourable terms than the Mills original contractor had provided.
45. Ditching, Pipeline Removal and Cleaning spending variances are primarily timing in nature. As previously noted, the Canso ditching project, if required, remains subject to ongoing discussions with the NSE to determine whether the ditching is required and the Pipeline project has just recently commenced after extensive consultations with PLFN, NSE and TIR stakeholders.

### BH Decommissioning

46. The Petitioners had originally envisioned the Lagoon clean up project being completed before 2020 calendar year end. However, the Lagoon decommissioning project was delayed with the identification of the Bottom Sludge and subsequent discussions between the Petitioners and the Province as the parties considered options to address the additional material. The spending variance associated with the Petitioners Lagoon clean-up project is timing in nature as the Company anticipates starting the project in the Spring of 2021. The quotes received for removal of the sludge are in line with the Interim Financing Budget, however, the Petitioners are still assessing whether additional costs will be incurred with respect to the disposal of the sludge depending upon its composition once the Lagoon is dredged and the sludge tested.



### Environmental Assessment

47. The Environmental Assessment costs relate to finding a solution for the R-ETF. Discussions within the ELC and communications with the various stakeholders including the Province, PLFN, and other community interest groups will dictate what the Environmental Assessment process will look like going forward. The current Environmental Assessment process is currently inactive. The Petitioners do not expect that any costs will be incurred with respect to the Environmental Assessment process prior to December 31, 2020.

### Payroll and Former Employee Obligations

48. The hourly, salary and other HR costs spending variances relating to payroll for current employees is primarily attributable to timing differences. Payroll spending through December 2020 is anticipated to be generally in line with the original projections.
49. Similarly, the spending variance relating to Employee Obligations is also timing related. Salary continuance payments will continue through December 2020. In addition, severance and salary continuance were paid to employees on October 15, 2020 and pension contributions related to the severance and salary continuance totalling \$133,112 are scheduled to be paid on October 30, 2020.
50. To date, no employees have elected or otherwise taken advantage of the terms of their employment contracts allowing them to take 50% of their salary continuance upon finding alternative employment.

### Administration (Non-Restructuring)

51. The spending variance in Administration (non-restructuring) is primarily timing related. Insurance premiums are paid by PEC and reimbursed by Northern Pulp in installments. Approximately \$557,929 in insurance installments will be paid in November 2020, which

comprises the majority of the budget variance. Property taxes have been fully paid for the year.

52. Professional fees include approximately \$68,000 paid to Pink Larkin with respect to discovery proceedings relating to the judicial review. No other legal fees have been spent with respect to the litigation against the Province.

#### Other Receipts

53. HST rebates and the Canadian Employee Wage Subsidy (“**CEWS**”) payroll rebates were not contemplated in the Interim Financing Budget which represent a permanent positive variance to budget.

#### Restructuring Costs

54. The variance in Restructuring Costs is primarily timing related.

### **MONITOR’S COMMENTS AND RECOMMENDATIONS**

55. At the commencement of these CCAA proceedings, it was apparent that the working relationships between many of the key stakeholders involved with the Mill’s operations and the Pictou community generally were strained. The Monitor is of the opinion that positive and productive steps have been taken to improve the working relationships between the Province, NSE, TIR, PLFN, other community groups and that Northern Pulp will continue to consult with these critical stakeholders in a productive way as negotiations with respect to a R-ETF and the restart of the Mill operations progress.
56. The advancement of a detailed and acceptable environmental assessment process in relation to an acceptable R-ETF construction project remains a matter of ongoing negotiation between the Petitioners, the Province and other key stakeholder groups. The development and advancement of such initiatives in a way that is environmentally acceptable to key stakeholders and uses new innovative technologies, is expected to be better understood by

December 31, 2020 and pursued over the next 6 months. The improved communications, interactions and consultation processes including the ongoing interactions with the ELC are expected to assist with the development of these initiatives in the future which are key to the successful restructuring and restart of the Mill.

57. The Monitor is of the opinion that the Petitioners have been acting in good faith and with due care and diligence when working with the Monitor and other stakeholders.

All of which is respectfully submitted this 30<sup>th</sup> day of October, 2020.

**ERNST & YOUNG INC.**

in its capacity as Monitor of the Petitioners and not in its personal capacity

Per:

A handwritten signature in black ink, appearing to read "Holly Palmer". The signature is fluid and cursive, with the first name "Holly" and last name "Palmer" clearly distinguishable.

**Holly Palmer, CIRP, LIT**  
**Vice President**

# Appendix A

Appendix "A" to the Fourth Report  
Northern Pulp Nova Scotia Corporation et al.  
Milestone 1 Activities (August 1, 2020 to December 31, 2020)

Milestone Evaluation Date	Target Completion Date	Category	Activities Completed	Description	Budgeted Cost of Activity	Actual Spend (Agreed to Banking - Oct 25, 2020)	Variance
31-Dec-20	On-going	Administration	Other Costs Office Supplies, Leases, Postage etc	Other administration costs	126,500	32,380	(94,120)
31-Dec-20	June 30, 2021	BH Operations	Waste Water Treatment	All waste water is now treated offsite	1,797,460	209,801	(1,587,649)
31-Dec-20	December 31, 2020	BH Operations	Ditching around Canso	Expenses related to the project of digging a ditch around Canso chemical plant	431,250	-	(431,250)
31-Dec-20	On-going	BH Operations	Buy Electricity for BHETF	Purchase of electricity for BHETF	267,375	-	(267,375)
31-Dec-20	August 31, 2020	BH Operations	Decommissioning Plan for ETF	Testing required by Ministerial Order	115,000	24,313	(90,687)
31-Dec-20	On-going	BH Operations	Washroom Facility	Portable washrooms	34,500	-	(34,500)
31-Dec-20	June 30, 2021	BH Operations	Effluent Testing	Testing required by Ministerial Order	28,750	28,069	(681)
31-Dec-20	September 30, 2020	BH Operations	Wetlands Study	As required by 2018 government directive	15,525	25,867	10,342
31-Dec-20	June 30, 2021	BH Operations	GW / SW Testing - Mill Site	Testing required by Ministerial Order	11,615	1,667	(9,948)
31-Dec-20	June 30, 2021	BH Operations	GHG Audit for 2020	Audit required by Nova Scotia Environment	11,500	-	(11,500)
31-Dec-20	June 30, 2021	BH Operations	GW / SW Testing - BHETF Site	Testing required by Ministerial Order	11,270	-	(11,270)
31-Dec-20	June 30, 2021	BH Operations	Toxicity Testing	Testing required by Ministerial Order	6,900	4,813	(2,087)
31-Dec-20	June 30, 2021	BH Operations	Monitor/Test Effluent at Point's C & D	Testing required by Ministerial Order	5,750	-	(5,750)
31-Dec-20	August 31, 2020	BH Operations	Wastewater Characterization Study	Testing required by Ministerial Order	4,025	-	(4,025)
31-Dec-20	August 31, 2020	BH Operations	Assessment of Effluent Sludges	Testing required by Ministerial Order	4,025	-	(4,025)
31-Dec-20	June 30, 2021	BH Operations	Ambient Air Maintenance/Calibration	Testing required by Ministerial Order	3,738	5,704	1,967
31-Dec-20	June 30, 2021	Decommissioning	Clean/Decommission Lagoon (ASB)	As required by Ministerial Order	3,450,000	-	(3,450,000)
31-Dec-20	August 31, 2020	Decommissioning	Clean/Decommission North Settling Pond	As required by Ministerial Order	92,000	56,494	(35,506)
31-Dec-20	August 31, 2020	Decommissioning	Clean/Decommission South Settling Pond	As required by Ministerial Order	92,000	56,494	(35,506)
31-Dec-20	September 30, 2020	Decommissioning	Clean/Decommission Open Ditches	As required by Ministerial Order	57,500	-	(57,500)
31-Dec-20	August 31, 2020	Decommissioning	Sludge Survey of Lagoon (ASB)	To determine scope of work to clean/decommission lagoon	11,500	-	(11,500)
31-Dec-20	June 30, 2021	Environmental Assessment	Marine Geotech	Review of designs for pipeline structures in the ocean	115,000	-	(115,000)
31-Dec-20	March 30, 2022	Environmental Assessment	ETF Detailed Design Engineering	Environmental assessment process	115,000	-	(115,000)
31-Dec-20	January 31, 2022	Environmental Assessment	Report Writing	Environmental assessment process	57,500	-	(57,500)
31-Dec-20	June 30, 2021	Environmental Assessment	Contingency - 10%	Environmental assessment process	32,775	-	(32,775)
31-Dec-20	October 31, 2021	Environmental Assessment	GW/SW Testing	Environmental assessment process	23,000	-	(23,000)
31-Dec-20	December 31, 2020	Environmental Assessment	PLFN Country Food Survey	Environmental assessment process	17,250	-	(17,250)
31-Dec-20	On-going	Finance	PEC Management Fee	Management fee paid to Paper Excellence Canada	828,000	415,918	(412,082)
31-Dec-20	On-going	Finance	Property Taxes	Property taxes for the Mill and Boat Harbour	351,500	167,883	(183,617)
31-Dec-20	On-going	Finance	AON (Property) (Jun to Jun)	Insurance	345,000	20,974	(324,026)
31-Dec-20	On-going	Finance	Other	Miscellaneous costs	20,988	22,731	1,743
31-Dec-20	December 31, 2020	Operations & Maintenance	Landfill Capping	Capping the landfill creates a barrier between the contaminated land in the landfill and the surface	575,000	782,771	207,771
31-Dec-20	On-going	Operations & Maintenance	Buy Electricity	Purchase of electricity for the Mill	449,650	190,000	(259,650)
31-Dec-20	October 31, 2020	Operations & Maintenance	Roof scupper installation	Installation of roof scuppers	74,750	25,000	(49,750)
31-Dec-20	On-going	Operations & Maintenance	Other Maintenance Costs	Contingency amount for unforeseen maintenance costs	57,500	90,497	32,997
31-Dec-20	On-going	Operations & Maintenance	Hibernation of Boilers	Purchase of gas to ensure boilers do not corrode	40,250	30,192	(10,058)
31-Dec-20	On-going	Operations & Maintenance	Washrooms	portable washrooms	34,500	22,865	(11,635)
31-Dec-20	On-going	Operations & Maintenance	Industrial Cleaning	Tank cleaning and wood yard vacuum work	17,250	-	(17,250)
31-Dec-20	On-going	Operations & Maintenance	Snow Clearing	Removal of snow	11,500	-	(11,500)
31-Dec-20	On-going	Operations & Maintenance	Manlift and Elevator Monthly inspections	Elevator safety inspections	5,750	5,156	(594)
31-Dec-20	On-going	Woodlands	Summary of Woodlands activities	Includes all woodland related activities	(436,254)	(242,615)	193,638
				Total Operations, Environmental and Decommission	9,314,081	1,976,974	(7,337,107)
31-Dec-20	November 30, 2021	HR	Hourly Severance	Severance payments to terminated union employees	1,978,179	1,584,926	(393,253)
31-Dec-20	On-going	HR	Salary and Benefits	remaining employee salary and benefits	723,884	413,460	(310,424)
31-Dec-20	January 15, 2024	HR	Salary Continuation	Salary continuation payments to non union employees	668,319	396,029	(272,290)
31-Dec-20	On-going	HR	Benefits (retire)	Benefits to retired employees	250,000	-	(250,000)
31-Dec-20	On-going	HR	Other	Security, janitorial, memberships, meeting costs and other costs	187,220	65,032	(122,188)
				Total Employee	3,807,602	2,459,447	(1,348,155)
31-Dec-20	June 30, 2022	Administration	Professional Fees McCarthy Tetraault	CCAA counsel fees	546,250	258,813	(287,437)
31-Dec-20	June 30, 2022	Administration	Professional Fees Ernst & Young	Monitor Fees	517,500	504,813	(12,687)
31-Dec-20	June 30, 2022	Administration	Professional Fees Stikeman Elliott	Monitor's counsel fees	517,500	135,688	(381,812)
31-Dec-20	June 30, 2022	Administration	Professional Fees McInnes Cooper	Company's counsel fees	287,500	154,370	(133,130)
31-Dec-20	June 30, 2022	Administration	Professional Fees Pink Larkin	Union's counsel fees	287,500	67,694	(219,806)
31-Dec-20	June 30, 2022	Administration	Professional Fees Merrick Jamieson	Counsel in ongoing action against a former supplier	143,750	-	(143,750)
31-Dec-20	June 30, 2022	Administration	Professional Fees Dale Patterson	Mill consultant fees	115,000	79,021	(35,979)
31-Dec-20	June 30, 2022	Administration	Professional Fees Osler	Environmental legal fees	57,500	5,615	(51,885)
31-Dec-20	June 30, 2022	Administration	Professional Fees Iris Comms	Public relations fees	57,500	34,500	(23,000)
31-Dec-20	June 30, 2022	Administration	Professional Fees Public Affairs Atlantic	Public relations fees	57,500	28,428	(29,072)
31-Dec-20	June 30, 2022	Administration	Professional Fees In Touch Comms	Public relations fees	43,125	-	(43,125)
31-Dec-20	June 30, 2022	Administration	Professional Fees Narrative Research	Public relations fees	23,000	-	(23,000)
				Total Professional Fees	2,653,625	1,268,942	(1,384,683)
				<b>TOTAL</b>	<b>15,775,308</b>	<b>5,705,364</b>	<b>(10,069,944)</b>
				Less: Activities funded through the Subordinated DIP Facility	2,896,498	1,980,955	(915,543)
				<b>AMENDED DIP BUDGET - Adjusted for pre-filing employee obligations</b>	<b>12,878,810</b>	<b>3,724,409</b>	<b>(9,154,401)</b>

**Cash flow summary - Cash on Hand and DIP**

Bank Account Balance June 19 per statement	6,674,021
Net Cash Flow June 19 to July 31	(1,195,807)
Bank Account Balance August 1 per statement	5,478,214
Actual Spend (net of Woodlands receipts)	(3,724,409)
Adjustments (primarily HST recoverable and CEWS not included above)	596,060
DIP Draw	15,000,000
Ending Balance October 25, 2020	17,349,865

**Cash flow summary - Subordinated DIP Facility (net of pre-filing employee obligations)**

Subordinated Interim Financing Facility Draw	2,700,000
Pre-Filing Employee Obligation Payments	(1,980,955)
Other account activity	190
Ending Balance	719,235
Total Ending Cash Balance October 25, 2020	18,069,100