

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

INTERNATIONAL FOREST PRODUCTS CORPORATION

Applicant

- and -

ST. MARYS PAPER CORP.

Respondent

APPLICATION UNDER SUBSECTION 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

NOTICE OF APPLICATION

TO THE RESPONDENT:

A LEGAL PROCEEDING HAS BEEN COMMENCED by the applicant. The claim made by the applicant appears on the following page.

THIS APPLICATION will come on for a hearing before a judge of the Commercial List on Wednesday, September 7, 2011, at 10:00 a.m., at 330 University Avenue, Toronto, Ontario.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the applicant's lawyer or, where the applicant does not have a lawyer, serve it on the applicant, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the

applicants' lawyer or, where the applicant does not have a lawyer, serve it on the applicant, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but not later than 2 days before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date: August 30, 2011

Issued by


local registrar

Address of the Court Office:

330 University Avenue
Toronto, Ontario
MSG 1E6 125

TO: THE SERVICE LIST ATTACHED

1. International Forest Products Corporation ("**IFP**"), make an application for an Order, *inter alia*:

- (a) abridging the time for service of the Notice of Application and the Application Record and dispensing with further service thereof;
- (b) appointing Ernst & Young Inc. ("**E&Y**") as receiver and receiver and manager (in such capacity, the "**Receiver**"), without security, of all of the assets, undertakings and properties of St. Marys Paper Corp. ("**St. Marys**") 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**"); and,
- (c) such further and other relief as counsel may request and this Honourable Court may permit.

2. **THE GROUNDS FOR THE APPLICATION ARE:**

- (a) St. Marys is an Ontario corporation operating a groundwood pulp and supercalendered specialty paper mill in Sault Saint Marie, Ontario (the "**Mill**");
- (b) The Mill, and the equipment, inventory and other personal property located at or relating to the operations of the Mill are St. Marys' primary assets;
- (c) On or about March 28, 2011, the Mill ceased operations due to numerous unexpected and repeated mechanical defects and component failures on its largest paper machine. The Mill remains idle as of the date hereof, all hourly employees are on indefinite layoff, and salaried employees have been reduced to a skeleton staff of fewer than ten;

Debtor Obligations & Defaults

- (d) As at August 31, 2011, St. Marys is indebted to IFP in the aggregate amount of \$7,621,606.13, plus interest accrued but unpaid as of the date hereof, plus any other discounts, expenses, costs, fees and/or other amounts that are or may be recoverable by IFP (collectively, the “**Current Indebtedness**”);
- (e) The Current Indebtedness has been incurred pursuant to certain loan agreements, pulp supply contracts and sales and marketing agreements with IFP;
- (f) The obligations of St. Marys to IFP are secured by a mortgage on 17 parcels of land located at 75 Huron Street, Sault Ste. Marie, Ontario (including the Mill) and comprehensive personal property security;
- (g) St. Marys is in default of its obligations to IFP, and has been since early April, 2011;
- (h) The requisite demands and notices in connection with such defaults have been delivered by IFP to St. Marys, and the notice periods provided therein have expired. IFP is therefore in a position to enforce its security against the St. Marys;
- (i) Despite good faith and diligent efforts by the parties to come to a negotiated resolution, terms of repayment of the outstanding indebtedness acceptable to IFP have not been reached;
- (j) As at August 13, 2011, St. Marys had only approximately \$260,000 in cash and has no access to further credit facilities to fund future operating costs or ordinary expenses incurred in keeping the Mill idle, and unless additional financing is secured, St. Marys will consume its diminished cash reserves by early to mid-September;

Need for a Receiver

- (k) As no going concern solution has been achieved for St. Marys liquidity crisis and attempts to reach a negotiated solution have been unsuccessful, it is just, convenient and necessary to appoint the Receiver in order to protect the interests of St. Marys' stakeholders, including IFP, and to realize on St. Marys' estates, under the Court's supervision;
- (l) As E&Y, a licensed trustee in bankruptcy, has been acting as financial advisor to IFP, with access to St. Marys' books, records and operations, E&Y is best positioned to realize on the property of St. Marys;
- (m) E&Y has consented to being appointed receiver and manager, without security, of St. Marys' assets;

Additional Grounds

- (n) Subsection 243(1) of the BIA;
- (o) Section 101 of the CJA;
- (p) Rules 1.04, 2.03, 3.02 and 38 of the Rules of Civil Procedure, R.R.O. 1990, Reg 194, as amended;
- (q) The reasons described in the affidavit of Daniel J. Moore (the "**Moore Affidavit**"); and
- (r) Such further and other grounds as counsel may advise and this Honourable Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

- (a) The Moore Affidavit, and the exhibits thereto, to be filed;

- (b) The consent of E&Y to act as receiver, to be filed; and
- (c) Such further and other materials as counsel may advise and this Honourable Court may permit.

August 30, 2011

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Lawyers for International Forest Products
Corporation

INTERNATIONAL FOREST PRODUCTS CORPORATION
Applicant

-and-

ST. MARY'S PAPER CORP.
Respondent

ONTARIO

SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

NOTICE OF APPLICATION
(Returnable September 7, 2011)

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