Court File No. CV-11-9367-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

INTERNATIONAL FOREST PRODUCTS CORPORATION

Applicant

- and -

ST. MARYS PAPER CORP.

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

THIRD SUPPLEMENTAL AFFIDAVIT OF DANIEL J. MOORE
(Sworn October 14, 2011)

I, DANIEL J. MOORE, of the Town of Needham, in the Commonwealth of Massachusetts, in the United States of America, **MAKE OATH AND SAY AS FOLLOWS:**

1. I am the Chief Operating Officer of the Applicant, International Forest Products Corporation ("**IFP**"). As such, I have knowledge of the matters deposed to in this affidavit. Where this affidavit is not based on personal knowledge, it is based on information and belief and I verily believe such information to be true.

2. This affidavit is supplemental to my affidavits sworn August 31, 2011 (the "**August 31 Affidavit**") and September 27, 2011 (the "**Supplemental Affidavit**") in support of an application (the "**Receivership Application**") by IFP for the appointment of Ernst & Young Inc. ("**E&Y**") as receiver and receiver and manager (in such capacity, the "**Receiver**") of all of the property, assets and undertaking of the Respondent, St. Marys Paper Corp. ("**St. Marys**"), pursuant to section 243(1) of the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**") and section 101 of the *Courts of Justice Act* (Ontario) (the "**CJA**"), and my affidavit sworn October 6, 2011 (the "**Second Supplemental Affidavit**") in support of a motion by IFP for certain interim relief (the "**Interim Relief Motion**"). Copies of the August 31 Affidavit, the Supplemental Affidavit and the Second Supplemental Affidavit are attached hereto, without exhibits, as **Exhibits "A", "B" and "C"**, respectively.

3. This affidavit is provided in support of the relief set out in paragraph 2 of this Affidavit, in particular, the Interim Relief Motion returnable October 17, 2011, and in reply to the affidavit sworn by Gordon P. Acton dated October 6, 2011 (the "**Acton Affidavit**") opposing the relief sought by IFP. A copy of the Acton Affidavit, without Exhibits, is attached hereto as **Exhibit "D"**.

4. All capitalized terms and phrases used and not otherwise defined herein have the meanings given to them in the August 31 Affidavit.

Material Developments since October 7, 2011

Interim Relief Motion

5. On October 7, 2011, counsel for IFP and St. Marys, among other interested parties, appeared before the Honourable Mr. Justice Campbell of the Ontario Superior Court (the "**Court**") on the Interim Relief Motion.

6. The Interim Relief Motion was brought by IFP as a result of St. Marys' delay in responding to the requests by Michael McGraw ("**McGraw**") of Blake, Cassels & Graydon LLP, counsel to IFP ("**Blakes**"), expressing IFP's numerous concerns with respect to the interim period prior to the return of the Receivership Application, as set out more particularly in paragraph 5 of the Second Supplemental Affidavit.

Cash Balance

7. I am advised by McGraw that counsel to St. Marys advised him on Thursday, October 6, 2011 that he was advised that St. Marys had a cash balance of $684,000 as of that date. Counsel for St. Marys subsequently advised McGraw and the Court at the Interim Relief Motion that St. Marys had approximately $484,000 in cash as of Friday, October 7, 2011 after payments of approximately $200,000 on Thursday October 6, 2011, and that St. Marys required an additional $81,000 until October 17, 2011 as set out in the Acton Affidavit.

Endorsement of Justice Campbell

8. As set out in Justice Campbell's Endorsement dated October 7, 2011 (the "**Endorsement**"), a copy of which is attached hereto (together with an unofficial transcription) as **Exhibit "E"**, the Interim Relief Motion was adjourned to October 17, 2011 on the terms agreed to between St. Marys and IFP. Those terms required, among other things: (i) St. Marys to provide its current cash balance to E&Y and to provide E&Y with its cash balance at the close of business on each business day until the Receivership Application is heard and finally disposed of; (ii) St. Marys to provide to E&Y by 5:00 p.m. on October 8, 2011 a reconciliation of its cash balance from August 15, 2011 to October 5, 2011 showing receipts and disbursements for this period, including an explanation of the source of the current cash balance, and details of all projected expenditures between October 6, 2011 and October 17, 2011 (inclusive); (iii) St. Marys to confirm and undertake not to transfer, dispose of, remove or encumber any assets until the Receivership Application is heard and finally disposed of; and (iv) that St. Marys not make disbursements between the date of the Endorsement and the return of the Receivership Application in excess of $81,000.

9. The Endorsement also scheduled a further hearing for October 27, 2011 to hear the Receivership Application in the event that matters were not substantially resolved by October 17, 2011 and provided that counsel would outline but may not finalize a timetable until October 17.

Confirmation and Undertaking of St. Marys

10. By letter from Acton dated October 7, 2011, St. Marys confirmed that it will not transfer, dispose of, remove or encumber any assets until the Receivership Application is heard and finally disposed of, and that St. Marys will not make disbursements between October 7, 2011 and October 17, 2011 in excess of $81,000 as set out in the Acton Affidavit. A copy of the October 7, 2011 letter is attached hereto as **Exhibit "F"**.

St. Marys Receipts and Disbursements

11. In accordance with the Endorsement, St. Marys provided a reconciliation of its cash balance from August 15, 2011 to October 7, 2011 showing receipts and disbursements for this period, and details of all projected expenditures between October 8, 2011 and October 17, 2011 (the "**Reconciliation**"). A copy of the Reconciliation is attached hereto as **Exhibit "G"**.

12. The Reconciliation shows a cash balance as of October 7, 2011 of $164,000. The Reconciliation demonstrates that St. Marys had approximately $320,000 less in cash as of October 7, 2011 than what McGraw and the Court were advised, and IFP understood as of that date. IFP did not learn of this discrepancy until October 8, 2011.

13. Receipts since August 15, 2011 total $833,000. Of this total, $647,000 is attributed to the HST Refund which was received during the week of September 25, 2011. The HST Refund represents a refund of funds paid by IFP on behalf of

St. Marys. IFP has repeatedly communicated its entitlement to the HST Refund to St. Marys, including in the course of the settlement discussions set out in the Supplemental Affidavit. As set out in paragraph 7 of the Supplemental Affidavit, by close of business on September 1, 2011, St. Marys and IFP had reached a material agreement on terms of settlement and forbearance, which agreement included the requirement of St. Marys to pay the HST Refund to IFP when received. These settlement discussions were extended until September 26, 2011, when, as set out in paragraph 16 of the Supplemental Affidavit, St. Marys advised IFP that the new financier had walked away from the deal. Despite numerous discussions between the parties during the week of September 25, St. Marys did not disclose that it had received the HST Refund. As set out in paragraph 17 of the Supplemental Affidavit, St. Marys made a final settlement proposal on September 27, 2011, which did not disclose that St. Marys had received the HST Refund, despite representations made by IFP to St. Marys that it would be willing to discuss additional forbearance if St. Marys was willing to make a payment to IFP to be applied to permanently reduce the Current Indebtedness.

14. Total disbursements set out in the Reconciliation total $932,000, and include, among other things, a retainer for $100,000 for legal fees, a retainer of $61,000 for a Mill sale consultant, and $470,000 for employee-related costs for payroll, benefits, expense reports and similar items.

15. Acton is Senior Business Partner and Orlando M. Rosa ("**Rosa**") is Managing Partner of Wishart Law Firm LLP, one of St. Marys' counsel on this matter. Acton is also the President of St. Marys, and, together with Rosa, holds

approximately 20% of the equity of St. Marys through various nominee corporations. As set out in paragraph 57 of the Acton Affidavit, Wishart has also registered a solictor's lien against certain municipal tax refunds payable to St. Marys in the amount of \$414,000, which would otherwise form part of IFP's collateral.

16. As set out in paragraph 6 of the August 31 Affidavit, St. Marys has been reduced to a skeleton staff of fewer than 10 employees. I have been advised by E&Y that St. Marys employees and officers may have for some time deferred payment of their salaries as a result of the St. Marys liquidity crisis. Accordingly, the payment of \$470,000 for employee-related costs during this period causes IFP concern.

17. Disbursements between August 28, 2011 to October 7, 2011 total \$697,000. As set out in paragraph 55 of the August 31 Affidavit, IFP advised St. Marys as early as August 23, 2011 that IFP would no longer forbear from exercising its remedies against St. Marys and would be seeking the appointment of a Receiver. As such, the value of IFP's collateral has declined by at least \$697,000 during this period. Moreover, St. Marys have taken advantage of Court scheduling issues and other delays out of the control of IFP to make additional disbursements to the detriment of IFP.

<u>Correspondence relaying IFP's concerns</u>

18. By e-mail dated October 11, 2011 to counsel to IFP, McGraw expressed IFP's concern regarding the additional \$320,000 in disbursements and asked counsel to

provide the necessary information to explain and reconcile the discrepancy. In addition, McGraw requested additional information and documentation with respect to, among other things, the HST Refund, certain sales of scrap metal, the retainer of the Mill sale consultant and certain travel expenses, and asked for a status update on the take-out financing St. Marys advised the court would be completed by October 11, 2011. McGraw advised that IFP fully intended to pursue the Interim Relief Motion in light of St. Marys' use of its cash. A copy of the October 11 e-mail is attached hereto as **Exhibit "H"**.

St. Marys' Response

19. By e-mail message dated October 13, 2011, counsel for St. Marys provided additional detail of expenses incurred in response to the October 11 email. IFP is currently reviewing the additional detail with its advisors. Copies of the e-mail and the additional detail are attached hereto as **Exhibit "I"**.

Overview of Response to Acton Affidavit

Capacity of IFP

20. IFP is a lender to St. Marys, its exclusive supplier of Pulp, and its exclusive distributor of all super calendared or other printing and writing paper produced by St. Marys at the Mill.

Restart of the Mill

21. The term advance made by IFP to St. Marys under the Loan Agreement, together with financing received from the Province, financed the December 2010 restart of the Mill, which had been idled since March, 2010.

22. As set out in paragraph 45 of the August 31 Affidavit, the Mill was shut down three months later, on or about March 28, 2011, as a result of numerous expensive, unexpected and repeated mechanical defects and component failures on its largest paper machine. The Mill has been idled since the shutdown and all hourly employees are on an indefinite layoff.

St. Marys' Default

23. St. Marys has been in default of its obligations to IFP since April 1, 2011. St. Marys has not made a single payment of principal or interest to IFP under the Loan Agreement.

24. On page 15 of the Acton Affidavit, it is conceded that the loan agreement with the Province requires that St. Marys continuously employ not less than 168 full time employees at the Mill. As all employees are on indefinite layoff, St. Marys is also in default under the loan agreement with the Province.

Cooperation of IFP

25. In the six months since St. Marys' default, IFP has been patient and cooperative and has granted St. Marys every opportunity to find a solution to its operational

and liquidity issues, to its detriment. During this period, St. Marys has tried and failed to raise capital from third party investors, to raise additional financing from third party lenders, to obtain additional financing from the Province of Ontario, to obtain forbearance on amounts owing to the Province under the Province Loan Agreement, to secure additional investments in the Co-Generation Facility, to generate development fees from third parties, and to obtain tax relief from certain tax authorities. At every interval, St. Marys has represented that the funding necessary to stave off its liquidity crisis and open the Mill was within reach, and has asked IFP for additional time to consummate the necessary transactions. During this time, the value of IFP's collateral has eroded due to, among other things, actions taken by St. Marys.

26. The Acton Affidavit makes numerous allegations in support of the same objective: obtaining more time. It is IFP's position that there is no reason to believe that the solutions St. Marys proposes now will be any more successful than the solutions they have pursued for the past several months. Meanwhile, the liquidity crisis described in the August 31 Affidavit has only intensified. By its own admission in the Reconciliation, St. Marys' cash balance of $164,000 will be reduced to $144,000 by October 17, 2011, with an additional $133,000 in expenses coming due on or before October 31, 2011.

Overview of Acton Affidavit

27. The Acton Affidavit alleges, among other things, that: (i) despite the fact that the Mill is not operating and no payment has been received by IFP of St. Marys

obligations under the Loan Agreement since the re-start of the Mill, IFP is the cause of St. Marys financial difficulties due to non-payment by IFP under the Sales and Remarketing Agreement; (ii) the Receivership Application threatens and/or would cause a default of St. Marys obligations under various agreements relating to the Co-Generation Facility scheduled to be operated by St. Marys Renewable Energy Corp. ("**Renewable Energy Corp**"), a related party of St. Marys, in 2014, if and when the Mill is reopened and $130 million in financing is obtained to fund the start-up costs of the Co-Generation Facility; and (iii) the value of IFP's collateral exceeds the value of the Current Indebtedness (based on, among other things, a valuation of the equipment obtained over five years ago, on June 22, 2006, and a competitive bid process conducted over four years ago, on May 7, 2007). I will address each allegation in turn.

Alleged non-payment by IFP under the Sales and Remarketing Agreement

28. As set out in paragraph 19 of the August 31 Affidavit, pursuant to the Sales and Remarketing Agreement, IFP was appointed as exclusive distributor of all super calendared or other printing and writing paper produced by St. Marys at the Mill (the "**Product**"). Section 2 of the Sales and Remarketing Agreement provides that IFP agrees to purchase from St. Marys all Product produced which complies with certain representations and warranties set out therein. Pursuant to Section III(b), IFP agrees to make payment for all Product produced by St. Marys in two installments, comprised of a **"Base Payment"** payable on the week following the production of the Product, and a "**Reconciliation Payment**" due on the 15th day of the month following the month in which the Product was shipped.

29. In paragraphs 36 to 41 of the Acton Affidavit, it is alleged that IFP is holding certain unsold inventory which represents unpaid revenue to St. Marys of $1,160,544.00.

All Unsold Inventory has been paid for

30. Contrary to the Acton Affidavit, all unsold inventory held by IFP has been paid for by IFP in accordance with the Sales and Remarketing Agreement, and St. Marys has no right, title or interest in or to the unsold inventory. St. Marys' interest in the proceeds upon the sale of any unsold inventory by IFP is less than $250,000.

No Event of Default

31. The failure of either party to make payment when due is an Event of Default under the Sales and Remarketing Agreement. No Event of Default has been declared by St. Marys.

32. Attached hereto as **Exhibit "J"** is a spreadsheet showing all payments made to St. Marys on account of Product purchases since December 21, 2010. As set out in the spreadsheet, all Base Payments have been made when due and the last payment which was due on May 15, 2011 was paid early on April 19, 2011.

IFP Offset Right

33. Pursuant to Section b.(4) of the Sales and Remarketing Agreement, IFP is entitled, at its sole option, to offset any balances held by it or any other amount

payable by IFP to St. Marys under the Sales and Remarketing Agreement or any other agreement between St. Marys and IFP (including the Loan Agreement and the Pulp Supply Contract). Attached hereto as **Exhibit "K"** is a spreadsheet showing all offsets applied by IFP since April 2011. The spreadsheet demonstrates that Reconciliation Payments due to St. Marys in the total amount of $944,807.51 have been withheld by IFP, to offset St. Marys' obligations due and owing to IFP, leaving a net overdue payable balance in favour of IFP in the amount of $3,868,999.31 as of August 31, 2011. The net balance does not include interest or amounts owing as a result of St. Marys default under the Loan Agreement.

34. As such, the allegation in paragraph 5 of the Acton Affidavit that IFP has "actively cut-off all business revenue of [St. Marys]", and the allegation in paragraph 38 of the Acton Affidavit that approximately $1,160,544.00 is owing to St. Marys on account of unsold inventory, is without basis. Even if there are additional amounts owing to St. Marys for unpaid Product (as a result of Reconciliation Payments or otherwise), which is expressly denied by IFP, IFP would be entitled to withhold those payments in accordance with its right of offset.

Default under Agreements relating to the Co-Generation Facility

<u>Power Purchase Agreement</u>

35. In paragraph 45 of the Acton Affidavit, it is asserted that the appointment of the Receiver over St. Marys would be a breach of the Power Purchaser Agreement

dated as of November 5, 2010 entered into by St. Marys Renewable Energy LP ("**Renewable Energy LP**") and the Ontario Power Authority (the "**Power Purchase Agreement**") attached as Exhibit "A" to the Acton Affidavit. I understand that Renewable Energy LP is a related party to Renewable Energy Corp and St. Marys.

36. St. Marys is not a party to the Power Purchase Agreement. It is IFP's position that a receivership of St. Marys is not a breach or event of default under the Power Purchase Agreement, and the appointment of a receiver would not cause a change of control of Renewable Energy LP.

37. In paragraph 3 of the Acton Affidavit, it is asserted that several institutional or chartered bank lenders are prepared to provide $75 million in debt financing to the Co-Generation Facility. No commitment letter, term sheet, comfort letter or other evidence has been provided to substantiate this assertion.

38. I am advised by McGraw that on October 7, 2011, Justice Campbell requested that the parties contact the Ontario Power Authority to obtain their position on the matters before the Court on the Interim Relief Motion and the Receivership Application, and specifically whether the Ontario Power Authority would withdraw its support for the Co-Generation Facility upon the appointment of the Receiver.

39. I understand from McGraw that there was some confusion in Court on October 7, 2011 as to whether counsel for the Province was acting on behalf of the Ontario Power Authority on this matter. By e-mail dated October 11, 2011, counsel for

the Province advised McGraw that he was not acting on behalf of the Ontario Power Authority. A copy of the e-mail from counsel to the Province is attached hereto as **Exhibit "L"**.

40. Upon receipt of the e-mail from counsel for the Province, I am advised by McGraw that copies of each of the application and motion records served in the proceedings have been provided to the Ontario Power Authority by counsel to IFP and the Ontario Power Authority to advise of their position on the relief sought by IFP in the Receivership Application and the Interim Relief Motion.

41. I am advised by Marc Flynn ("**Flynn**") of Blakes that he spoke with counsel for the Ontario Power Authority on October 13, 2011, who advised that the Ontario Power Authority was in the process of retaining external counsel and would advise IFP of its position in the coming days, and suggested a meeting with St. Marys and IFP once the Ontario Power Authority had confirmed its position.

Prosperity Fund Agreement and Province support of Co-Generation Facility

42. In paragraph 47 of the Acton Affidavit, it is asserted that the $25 million prosperity fund grant to St. Marys granted pursuant to an agreement entered into with the Province (i.e., Her Majesty the Queen in Right of the Province of Ontario, as represented by the Minister of Northern Development, Mines and Forestry) would be canceled if the Receiver is appointed. In paragraph 3 of the Acton Affidavit, it is asserted that St. Marys presently has a commitment of a $25 million prosperity fund grant and an additional $25 million subordinated loan

guarantee from the Province. The "**Prosperity Fund Agreement**" is attached to the Acton Affidavit as Exhibit G.

43. Despite requests by Blakes to St. Marys' counsel, IFP has not been provided with an executed copy of the Prosperity Fund Agreement. The agreement set out in Exhibit G of the Acton Affidavit is an unexecuted template agreement which does not reference St. Marys or any of its related parties. Counsel to IFP has also asked counsel to St. Marys to confirm that St. Marys is a party to the Prosperity Fund Agreement.

44. The Province has been served with copies of the application and motion records served in the proceedings and counsel to IFP have asked the Province to advise of their position on the relief sought by IFP in the Receivership Application and the Interim Relief Motion.

45. I am advised by Flynn that he spoke with counsel for the Province on October 13, 2011, who advised that no Power Purchase Agreement has been entered into with St. Marys or any of its affiliates. Flynn was also advised that there is no commitment by the Province to provide a $25 million prosperity fund grant or a $25 million loan guarantee to St. Marys, as alleged in the Acton Affidavit. A copy of an e-mail received from counsel to the Province is attached hereto as **Exhibit "M"**.

46. It is IFP's position that a receivership of St. Marys is not a breach or event of default or does not otherwise threaten a prosperity fund grant or subordinated loan

guarantee alleged to have been made by the Province, as no agreement has been entered into.

Value of IFP's Collateral

47. In paragraph 5 of the Acton Affidavit, it is asserted that the value of IFP's collateral is significantly higher that the debt owed to IFP. In support of this assertion, St. Marys has provided a copy of decision of the Assessment Review Board valuing the real property collateral (attached as Exhibit C to the Acton Affidavit), a valuation of the St. Marys equipment performed on June 22, 2006, a summary of bids received by RSM Richter in connection with a previous distressed sale of the St. Marys business (attached as Exhibit D to the Acton Affidavit), and internally generated documents setting out the value of St. Marys inventory (attached as Exhibits E and F to the Acton Affidavit).

48. IFP disputes the valuations of the real property collateral, equipment, inventory and other assets relied on by St. Marys, and disagrees with St. Marys' assertion that the value of IFP's collateral is significantly higher that the debt owed to IFP. As set out in paragraph 65 of the August 31 Affidavit, IFP believes that the value of the collateral subject to IFP's security may not be sufficient to pay out the Current Indebtedness in full.

Valuations of IFP Collateral obtained by IFP

49. Information with respect to the valuation of the real and personal property of St. Marys obtained by IFP has been filed separately in a sealed envelope and marked

as **Exhibit "N"**. IFP requests that the information set out in Exhibit N remain confidential pursuant to the terms of a protective order and not form part of the permanent court file, only be opened and viewed by the Judge presiding over the Interim Relief Motion and the Receivership Application, and be returned to the envelope after the hearing of the Interim Relief Motion and the Receivership Application and only be used in these proceedings as directed by the Court. It is IFP's position that the public disclosure of this information could potentially prejudice any sales and marketing process with respect to St. Marys' assets.

Need for Relief

50. As set out in the August 31, 2011 Affidavit, the Supplemental Affidavit and the Second Supplemental Affidavit, St. Marys faces an immediate liquidity crisis. St. Marys has secured no new financing since the August 31 Affidavit and has been unable to reach a settlement with IFP. St. Marys has significantly depleted IFP's collateral during this period, and has sought to change the venue of the proceedings to Sault Ste. Marie to further delay the relief sought by IFP.

51. For these reasons, and all of the reasons set out in my previous affidavits, IFP believes that interim relief is necessary to prevent further erosion of IFP's security, including cash. IFP also believes that it is necessary to appoint a receiver and receiver and manager in order to allow for an orderly, court-supervised forum for the realization upon St. Marys' assets, including a potential going concern sale, for the benefit of all stakeholders and to prevent any further erosion of IFP's security position.

52. This affidavit is made in support of the Interim Relief Motion and the Receivership Application and for no other or improper purpose.

SWORN BEFORE ME at the Town of Foxborough, in the Commonwealth of Massachusetts, this 14 day of October, 2011

A Commissioner of Oaths, etc.

AIMEE L DESJOURDY
Notary Public
COMMONWEALTH OF MASSACHUSETTS
My Commission Expires
April 7, 2017

DANIEL J. MOORE

Court File No.

INTERNATIONAL FOREST PRODUCTS CORPORATION v. ST. MARYS PAPER CORP.

Applicant Respondents

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

THIRD SUPPLEMENTAL AFFIDAVIT OF DANIEL J. MOORE (SWORN OCTOBER 14, 2011)

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EXHIBIT “A”

Court File No. CV-11-9367-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

INTERNATIONAL FOREST PRODUCTS CORPORATION

Applicant

- and -

ST. MARYS PAPER CORP.

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

AFFIDAVIT OF DANIEL J. MOORE
(Sworn August 31, 2011)

I, DANIEL J. MOORE, of the Town of Needham, in the Commonwealth of Massachusetts, in the United States of America, **MAKE OATH AND SAY AS FOLLOWS:**

1. I am the Chief Operating Officer of the Applicant, International Forest Products Corporation ("**IFP**"). As such, I have knowledge of the matters deposed to in this affidavit. Where this affidavit is not based on personal knowledge, it is based on information and belief and I verily believe such information to be true.

2. This affidavit is sworn in support of an application by IFP for the appointment of Ernst & Young Inc. ("**E&Y**") as receiver and receiver and manager (in such capacity, the "**Receiver**") of all of the property, assets and undertaking of the Respondent St. Marys Paper Corp. ("**St. Marys**"), pursuant to section 243(1) of the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**") and section 101 of the *Courts of Justice Act* (Ontario).

Overview

3. St. Marys is a corporation incorporated pursuant to the laws of the Province of Ontario with its head office located in the City of Sault Ste. Marie, Ontario. St. Marys operates a groundwood pulp and supercalendered specialty paper mill (the "**Mill**") producing quality paper grades used mainly by magazine publishers and retailing companies for high quality advertising inserts, flyers and catalogues.

4. St. Marys operates the Mill at owned premises located at 75 Huron Street, Sault Ste. Marie, Ontario. 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.

5. St. Marys employs approximately 200 hourly employees, represented by the Communications, Energy and Paperworkers Union Locals 133, 67, 69 and 47). St. Marys also employs salaried employees. On or about August 10, 2011, Sault This Week reported that Local 133 is seeking a lien against St. Marys to secure payment of St. Marys severance obligations.

6. As described below, on or about March 28, 2011, the Mill ceased operations due to numerous expensive, unexpected and repeated mechanical defects and component failures on its largest paper machine. The Mill remains idle as of the date of this affidavit, all hourly employees are on indefinite layoff, and salaried employees have been reduced to a skeleton staff of fewer than ten.

7. St. Marys is also planning the development, through its related party St. Marys Renewable Energy Corp., of a co-generation facility at the Mill to produce biomass-fueled, renewable, electrical energy (the "**Co-Generation Facility**"). I have been advised by St. Marys that it has provided start-up capital to the project in the approximate amount of $4,000,000 and is currently seeking to secure $130 million in additional financing to construct and develop the Co-Generation Facility. I have also been advised by St. Marys Renewable Energy Corp. that it has entered into a ten year power purchase agreement with Ontario Power Authority for a 35 megawatt facility, which is conditional upon the restart of the Mill. The Co-Generation Facility, if successfully completed, would provide electricity to the Mill and additional income to St. Marys.

8. I have been advised by E&Y, in its capacity as financial advisor to IFP, that 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. I understand that St. Marys is seeking a property tax refund through arbitration in the approximate amount of $1.4 to 1.6 million, net of costs, certain

Scientific Research & Experimental Development tax credits from the Province of Ontario in the approximate amount of \$200,000, and other short-term cash receipts to generate additional working capital while they continue to pursue additional financing. It is uncertain when these additional funds will be received, if at all. Accordingly, St. Marys faces an immediate liquidity crisis.

9. IFP is a corporation incorporated pursuant to the laws of the State of Delaware with its head office located in the Town of Foxborough, Massachusetts, which is in the business of sourcing and selling forest products. IFP is the first priority secured creditor of St. Marys.

10. As at August 31, 2011, St. Marys is indebted to IFP in the aggregate amount of \$7,621,606.13, (which includes interest accrued to the date of this affidavit), plus any other discounts, expenses, costs, fees and/or other amounts that are or may be recoverable by IFP (collectively, the "**Current Indebtedness**"). As described below, the Current Indebtedness has been incurred pursuant to certain loan agreements, pulp supply contracts and sales and marketing agreements with IFP and interest continues to accrue on the Current Indebtedness at the rates set out in the applicable agreements. The obligations of St. Marys to IFP are secured by a mortgage on the Real Property and comprehensive personal property security.

11. St. Marys has been in default of its obligations to IFP since on or about April 1, 2011. Since the shutdown of the Mill, IFP has refrained from enforcing its security in order to provide St. Marys with an opportunity to secure additional

financing in order to re-start the Mill, and to attempt to raise capital to complete the Co-Generation Facility.

12. Notwithstanding the cooperation and forbearance of IFP, St. Marys has not been successful in obtaining sufficient funding to restart the Mill. St. Marys has made some progress towards obtaining financing for the Co-Generation Facility but have not concluded any transactions or received any funds. The Mill remains closed and there is no realistic prospect that St. Marys will be able to raise sufficient new debt and/or equity to restart the Mill or to complete the Co-Generation facility in the immediate future. The Current Indebtedness remains outstanding and, based on discussions with E&Y, in its capacity as financial advisor, it is IFP's position that the value of its collateral may be insufficient to satisfy St. Marys' outstanding obligations to IFP.

13. IFP seeks the appointment of a receiver and receiver and manager to pursue a going concern sale of St. Marys and/or to canvass additional sources of financing for the Mill and the Co-Generation Facility, and to consider additional strategic options. As a result of St. Marys liquidity crisis, a going concern sale or refinancing must be completed in the immediate future, or St. Marys will be forced to liquidate.

14. IFP believes that it is just, convenient and necessary to appoint the Receiver in order to protect the interests of all of St. Marys' creditors, including IFP, and to provide an orderly, court-supervised forum for the realization upon St. Marys' assets, including a potential going concern sale. As E&Y has already been

engaged by IFP as financial advisor and completed an initial review of St. Marys' operations, and is familiar with the financial affairs and challenges facing St. Marys, it is best positioned to act as receiver and receiver and manager of St. Marys' property, assets and undertaking, and has consented to such appointment.

Obligations Owing to IFP

15. St. Marys is indebted to IFP pursuant to the Loan Agreement (as defined below), as further evidenced by the Term Note (as defined below) and the Pulp Supply Contract (as defined below). St. Marys has granted both real property and personal property security to IFP to secure all obligations owing to IFP, including the obligations owing under the Loan Agreement, the Pulp Supply Contract and the Sales and Remarketing Agreement (as defined below). As of the date of this affidavit, St. Marys is indebted to IFP in the amount of the Current Indebtedness, including indebtedness in the approximate amount of US$3,215,497.44 under the Loan Agreement, and indebtedness in the approximate amount of $4,406,108.69 under the Pulp Supply Contract. IFP is currently holding US$843,365 under the terms of the Sales and Remarketing Agreement, which will be offset against the indebtedness owing to IFP under the Loan Agreement and the Pulp Supply Contract. Certain of the obligations of St. Marys to IFP have been guaranteed on a joint and several basis by the Guarantors (as defined below).

Loan Agreement

16. Pursuant to the Loan Agreement dated December 8, 2010, between St. Marys, as borrower, and IFP, as lender (as amended, the "**Loan Agreement**") a term loan in favour of St. Marys was established in the amount of USD $3,000,000. A true copy of the Loan Agreement is attached hereto as **Exhibit "A"**.

17. The obligations of St. Marys under the Loan Agreement are further evidenced by a Term Note dated December 8, 2010 (the "**Term Note**"). A true copy of the Term Note is attached hereto as **Exhibit "B"**.

Pulp Supply Contract

18. Pursuant to the Pulp Supply Contract made as of December 8, 2010, between St. Marys, as buyer, and IFP, as Seller (the "**Pulp Supply Contract**"), IFP was appointed by St. Marys as exclusive supplier of northern bleached softwood kraft pulp ("**Pulp**") for St. Marys' paper production at the Mill. A true copy of the Pulp Supply Contract is attached hereto as **Exhibit "C"**.

Sales and Remarketing Agreement

19. Pursuant to the Purchase and Sale Agreement dated December 8, 2010 between IFP and St. Marys (the "**Sales and Remarketing Agreement**"), IFP was appointed as exclusive distributor of all super calendared or other printing and writing paper produced by St. Marys at the Mill. IFP is required to collect and remit payments to St. Marys from third parties on each sale and is entitled to

collect a commission. A true copy of the Sales and Remarketing Agreement is attached hereto as **Exhibit "D**.

20. Pursuant to section III(b)(4) of the Sales and Remarketing Agreement, IFP is entitled to offset any balances held by it or any other amount payable by IFP to St, Marys against any amount payable by St. Marys to IFP under the Sales and Remarketing Agreement or any other agreements between St. Marys. IFP has exercised its offset rights and is currently holding US$843,365 which will be offset against the indebtedness owed by St. Marys under the Loan Agreement and the Pulp Supply Contract.

IFP Security

21. St. Marys has granted personal property and real property security to IFP to secure all obligations owing to IFP, including the Current Indebtedness.

Personal Property Security

22. Pursuant to the General Security Agreement dated as of December 8, 2010 (the "**General Security Agreement**"), St. Marys granted a security interest to IFP over all of its presently owned or held and after-acquired or held personal property, assets and undertaking, of whatever nature or kind and wherever situate, and all proceeds derived directly or indirectly thereof and therefrom. The General Security Agreement secures payment and performance of all indebtedness, obligations and liabilities of St. Marys to IFP, including the indebtedness, obligations and liabilities of St. Marys to IFP under or pursuant to the Loan

Agreement, the Pulp Supply Contract and the Sales and Remarketing Agreement. A true copy of the General Security Agreement is attached hereto as **Exhibit "E"**.

23. Financing statements in respect of IFP's personal property security interests are registered against St. Marys under the *Personal Property Security Act* (Ontario) (the "**PPSA**"). A true copy of the searches against St. Marys under the PPSA, current as of August 30, 2011, are attached hereto as **Exhibit "F".**

Real Property Security

24. Pursuant to the Charge/Mortgage in the principal amount of \$12,000,000 registered on March 3, 2011 (the "**Mortgage**"), St. Marys granted a charge over 17 parcels of land located at 75 Huron Street, Sault Ste. Marie, Ontario (collectively, the "**Real Property**") as continuing security for the payment of all present and future indebtedness and liabilities of St. Marys to IFP, including the obligations of St. Marys under the Loan Agreement. A true copy of the Mortgage is attached hereto as **Exhibit "G"**.

25. A copy of the Land Registry Office Parcel Register for the Real Property, current as of August 29, 2011, is attached hereto as **Exhibit "H"**.

Guarantors

26. Pursuant to the Guaranty dated December 8, 2010 (the "**Guaranty**"), the obligations of St. Marys under the Transaction Documents (as defined in the Loan Agreement) are guaranteed on a joint and several basis by SMP Equity Corp., Marc Dube, Pauline Henderson, Todd Black, Robert Yrjola, Henson and

Tregonning Logging Ltd., Avery Construction Limited, 1022013 Ontario Inc., Knut Holdings Inc. and Acton Exploration and Resources Inc. (collectively, the "**Guarantors**"), in an amount not exceeding $500,000, plus all taxes, fees and expenses (including legal fees) incurred by IFP in connection with the collection of all or any part of the Obligations (as defined in the Guaranty), and any and all late charges and interest accruing on any past due amount and all other additional sums which may or shall become due or payable with respect to such overdue amounts. The Guaranty is unsecured. A true copy of the Guaranty is attached hereto as **Exhibit "I"**.

27. As of the date of this affidavit, IFP has not made demand for payment on the Guaranty from the Guarantors.

Other Secured Creditors

PPSA Secured Creditors

28. In addition to IFP, St. Marys is indebted to and has granted security under the PPSA to Her Majesty the Queen in Right of the Province of Ontario, as represented by the Minister of Northern Development, Mines and Forestry (formerly the Minister of Northern Development and Mines) (the "**Province**"), Royal Bank of Canada ("**RBC**"), Assetlinx Capital Inc. ("**Assetlinx**"), and New North Fuels Inc. ("**NNF**"). The priority of the security interests granted to the Province and RBC are subject to intercreditor agreements with IFP, as more particularly described below.

Intercreditor Agreement with the Province

29. IFP and the Province have entered into an Amended and Restated Intercreditor Agreement dated as of December 8, 2010 (the "**Intercreditor Agreement**"). A true copy of the Intercreditor Agreement is attached hereto as **Exhibit "J"**.

30. Pursuant to the Intercreditor Agreement, the Province has postponed and subordinated all present and future personal property and real property security granted by St. Marys to the Province to all present and future security granted by St. Marys to IFP, to the extent of the obligations owing by St. Marys to IFP up to a maximum principal amount of $21,600,000.00, together with interest, fees (including prepayment fees) and similar charges and costs and expenses incurred by or on behalf of IFP which St. Marys is required to pay. The Intercreditor Agreement does not restrict payment of principal and interest to the Province prior to enforcement by IFP.

31. I have been advised by E&Y, in its capacity as financial advisor to IFP, that as at June 30, 2011, St. Marys' aggregate indebtedness to the Province is approximately $18,883,000.

Intercreditor Agreement with RBC

32. IFP and RBC are party to a letter agreement dated as of December 3, 2010 (the "**RBC Agreement"**). A true copy of the RBC Agreement is attached hereto as **Exhibit "K"**.

33. Pursuant to the RBC Agreement, IFP has subordinated and postponed its security against St. Marys in all respects to RBC's security in certain cash collateral on deposit with RBC, in an amount not to exceed CDN $3,045,000 (the "**RBC Deposits**"). RBC has subordinated and postponed its security against St. Marys in all present and future property of St. Marys to IFP, save and except for its security in the RBC Deposits, and RBC has confirmed that its PPSA registrations do not perfect a security interest in any property other than the RBC Deposits.

NNF Security

34. Pursuant to a letter dated December 17, 2010, NNF has confirmed and agreed that its PPSA registrations only perfect a security interest in limited collateral described therein as a "card lock fuelling system with tankage and all appurtenances" (the "NNF Agreement"). A true copy of the NNF Agreement is attached hereto as **Exhibit "L"**.

35. NNF has confirmed in writing to IFP that its security interest is limited to specific collateral, as more particularly described below.

Assetlinx Security

36. The security interest obtained by Assetlinx corporation is limited to certain printers and other equipment, as set out in its PPSA financing statement.

CFSL Notice

37. By PPSA notice dated July 25, 2011, Caterpillar Financial Services Limited ("**CFSL**") has also asserted a security interest and repossessed certain equipment of St. Marys. As more particularly set out in Exhibit "F", CFSL does not have a current PPSA registration against St. Marys.

Other Registrations

38. In addition to IFP, the secured creditors listed in paragraph 28 of this affidavit and CFSL, as set out in Exhibit "F", PPSA registrations have been made against St. Marys by Her Majesty the Queen in Right of Ontario as Represented by the MOR in the amount of $122,713, and by TMS Truck Centre Ltd. under the *Repair and Storage Liens Act* in the amount of $5,500.

Real Property Security Creditors

39. In addition to IFP, St. Marys is indebted to and has given real property security to the Province.

40. The Province's security over the Real Property has been subordinated to IFP's security pursuant to the Intercreditor Agreement, as described in paragraphs 29-31 of this affidavit.

Lien on Real Property

41. By instrument dated July 4, 2011, Her Majesty the Queen in Right of Ontario as represented by the Minister of Revenue has registered a lien against the Real Property in the amount of $122,834.00.

Other Outstanding Debts

42. In addition to the amounts owing to IFP, the Province and the other secured creditors, as at June 30, 2011, St. Marys is also indebted to a number of other creditors in the approximate amount of $15,000,000. This indebtedness includes property tax arrears to the City of Sault Ste. Marie in the approximate amount of $5,234,000, unpaid stumpage fees in the approximate amount of $387,000, which may be a secured claim pursuant to a statutory lien in favour of the Province of Ontario, and approximately $8,000,000 in trade accounts payable. The majority of the trade account payables have been outstanding for more than 60 days.

43. I have been advised by E&Y, in its capacity as financial advisor, that St. Marys is currently involved in arbitration with the Municipal Property Assessment Corporation, which, if successful, would result in a refund of property taxes in the approximate amount of $1.4 to $1.6 million, net of costs.

Vacation Pay and other Employee Claims

44. As at June 30, 2011, St. Marys owes approximately $587,000 in vacation pay arrears to management, Mill workers and staff. I have been advised by E&Y, in its capacity as financial advisor, that certain management personnel have deferred

their salaries to conserve cash flow and St. Marys may be indebted to such personnel in the amount of the deferral.

St. Marys Liquidity Crisis

Mill Shutdown

45. On or about March 28, 2011, St. Marys was forced to shut down the Mill as a result of numerous expensive, unexpected and repeated mechanical defects and component failures on its largest paper machine. The paper machine provides more than half of its annual output capacity. I have been advised by E&Y, in its capacity as financial advisor, that the remaining two paper machines have been offline since December 2009.

Default by St. Marys

46. On or about April 1, 2011, St. Marys failed to make payments due to IFP in the amount of US $122,125 under the Loan Agreement. These payments remain outstanding.

47. During the month of April, 2011, St. Marys advised IFP that it expected to obtain a grant from the Province of Ontario with respect to the Co-Generation Facility and certain development fees from a third party with respect to the Co-Generation Facility. St. Marys also advised IFP that it had requested additional financial support from the Province of Ontario with respect to the Co-Generation Facility in the approximate amount of $4,000,000. In addition, St. Marys advised IFP that it was seeking additional support from the Province in the form of a forbearance

under the loan entered into by St. Marys with the Province. St. Marys further advised that a meeting of the Treasury Board of the Province of Ontario was scheduled for May 19, 2011 to consider St. Marys requests.

48. On April 28, 2011, IFP received St. Marys unaudited first quarter financial results as of March 31, 2011, showing a net loss in excess of $4,000,000. A true copy of the March 31, 2011 financial statements are attached hereto as **Exhibit "M"**

49. On April 29, 2011, IFP sent a notice of default to St. Marys under the Loan Agreement and the Pulp Supply Contract. The notice of default requested that St. Marys provide an update on their financial and operational circumstances, a revised business plan, and a target date for restarting the Mill. On or about May 19, 2011, IFP provided a copy of the notice of default to the Province. A true copy of the notice of default is attached hereto as **Exhibit "N"**.

50. St. Marys has not made the required payments under the Loan Agreement due on May 1, June 1, July 1 and August 1, 2011 in the aggregate amount of US $527,997.44.

Request for IFP Forbearance

51. On or about May 12, 2011, St. Marys requested that IFP forbear from collecting all amounts owing by St. Marys until January 1, 2012.

52. On or about May 17, 2011, St. Marys provided revised pro forma financial statements projecting a $6,000,000 loss in fiscal 2011. A true copy of the pro forma financial statements are attached hereto as **Exhibit "O"**

53. On or about May 20, 2011, in response to St. Marys' request for forbearance by IFP, IFP provided a draft forbearance agreement, an amendment to the Loan Agreement, and an amendment to the Guaranty specifying the terms and conditions under which IFP would agree to forbear from collecting the indebtedness owed by St. Marys. A true copy of the draft forbearance, amendment to the Loan Agreement and amendment to the Guaranty are attached hereto as **Exhibit "P"**

54. In or about June and July, 2011, IFP provided St. Marys with several revised drafts of the forbearance agreement and the Guaranty. IFP received no response or comment on its forbearance terms until August 23, 2011.

55. The response received from St. Marys dated August 23, 2011 proposes a recapitalization of St. Marys, to be completed no earlier than the middle of October, 2011, and proposes revisions to several material terms of the forbearance proposed by IFP. A true copy of the timetable proposed by St. Marys for a recapitalization is attached hereto as **Exhibit "Q"**. These proposed terms are unacceptable to IFP.

56. As IFP and St. Marys have been unable to negotiate mutually acceptable forbearance terms and, due to the liquidity crisis facing St. Marys and the potential losses IFP may suffer upon realization on its collateral, IFP is not prepared to consider continuing to forbear from exercising its rights under its agreements with St. Marys.

New Sources of Financing

57. From May to August, 2011, IFP has received numerous financial updates from St. Marys. As part of these updates, St. Marys advised IFP that it was pursuing a number of options to finance a restart of the Mill, a completion of the Co-Generation Facility, and a reduction of its liabilities. These potential options have included: a funding grant from the Northern Industrial Energy Rate Program in the amount of $1,500,000; development fees from third parties; grants from the Province of Ontario; credit support and forbearance from the Province; equity investments from new investors through the issuance of new shares with certain tax attributes; new capital provided by private equity investors; and new financing from high yield investors.

58. We have been advised by E&Y, in its capacity as financial advisor that, with the exception of a funding grant from the Northern Industrial Energy Rate Program in the amount of $300,000 (after the Province set off the balance of the grant to reduce obligations owing by St. Marys to the Province), none of these potential funding sources identified by St. Marys resulted in any new funds being made available to St. Marys.

59. I am advised by E&Y, in its capacity as financial advisor, that on or about July 26, 2011, St. Marys received a corporate tax refund in the amount of $926,000 which has been the primary source of funding used by St. Marys to fund its operations since that date.

60. As set out in paragraph 55 of this affidavit, St. Marys has acknowledged that a recapitalization will not be completed until the middle of October, 2011, at the

earliest. As such, St. Marys will be unable to secure sufficient financing prior to the beginning to the middle of September 2011, when I have been advised by St. Marys and E&Y, in its capacity as financial advisor, that St. Marys is expected run out of operating capital. The short term cash receipts identified by St. Marys as sources of additional operating capital beyond the middle of September 2011 are uncertain and, even if received, will not be sufficient to cover the expenses necessary to power the Mill, for security, and to insure or otherwise preserve St. Marys' assets. As such, the short term cash receipts will only serve to delay the liquidity crisis St. Marys faces, and during such delay, IFP's collateral value will continue to deteriorate. Without any significant additional operating capital, St. Marys will be unable to restart the Mill to generate operating revenue or complete the Co-Generation Facility. I have been advised by E&Y, in its capacity as financial advisor, that even with sufficient operating funds in the short term, it is unlikely that the Mill could be restarted until November 2011 at the earliest.

Engagement of E&Y as Financial Advisor

61. By letter dated July 19, 2011, IFP retained E&Y as financial advisor to conduct a general review of St. Marys' business affairs, including its operations, assets and financial position. St. Marys provided its consent to such appointment on August 18, 2011. In the course of its duties as advisor, E&Y was granted access to St. Marys' business operations, assets and books and records. A true copy of the executed engagement letter and acknowledgement of St. Marys is attached hereto as **Exhibit "R"**.

Demand for Payment and Notice of Intention to Enforce Security

62. By letter dated July 28, 2011, IFP demanded payment in full of all outstanding indebtedness of St. Marys to IFP. The demand letter enclosed a Notice of Intention to Enforce Security under subsection 244(1) of the BIA. By letter dated August 4, 2011, IFP delivered an Amended Notice of Intention to Enforce Security to include certain HST owing that was inadvertently omitted from the original s. 244 notice. (collectively, the "**244 Notices**"). True copies of the letters dated July 28, 2011 and August 4, 2011 and the 244 Notices addressed to St. Marys are attached hereto as **Exhibit** "**S**".

IFP Security is Currently Enforceable

63. No payment has been received in response to IFP's demand letter. I am advised by counsel that as the ten-day notice period under the BIA required to be given by a secured creditor prior to enforcing its security has expired, the security granted by St. Marys to IFP is currently enforceable by IFP.

Need for Relief

64. St. Marys has not made any payments in respect of its indebtedness to IFP and it has failed in its attempt to secure sufficient new financing. The Mill cannot be restarted and the Co-Generation Facility cannot be completed without additional financing in the immediate future. As such, St. Marys faces an immediate liquidity crisis.

65. The value of the collateral subject to IFP's security may not be sufficient to satisfy the Current Indebtedness in full. In addition, as described above, St. Marys has significant outstanding indebtedness to other creditors.

66. IFP seeks the appointment of a receiver and receiver and manager to pursue a going concern sale of St. Marys and/or to canvass additional sources of financing for the Mill and the Co-Generation Facility, and to consider additional strategic options. IFP understands that the Province has made a substantial investment in St. Marys' business and that a permanent shutdown would affect the livelihoods of a number of employees and other businesses in the region. As a result of St. Marys liquidity crisis, a going concern sale or refinancing must be completed immediately, or St. Marys will be forced to liquidate.

67. For all of the foregoing reasons, IFP believes that it is necessary to appoint a receiver in order to allow for an orderly, court-supervised forum for the realization upon St. Marys' assets, including a potential going concern sale, for the benefit of all stakeholders and to prevent any further erosion of IFP's security position.

68. The Applicant seeks the appointment of E&Y as Receiver. As E&Y has already begun a review of St. Marys' operations, E&Y is best positioned to act as receiver and receiver and manager of St. Marys' property, assets and undertaking, and has consented to such appointment.

69. This affidavit is made in support of IFP's application for the appointment of a receiver and receiver and manager of St. Marys, and for no other or improper purpose.

SWORN BEFORE ME at the Town of Foxborough)
in the Commonwealth of Massachusetts)
this 31 day of August, 2011)
)
)

A Commissioner of Oaths, etc.

DANIEL J. MOORE

AIMEE L DESJOURDY
Notary Public
COMMONWEALTH OF MASSACHUSETTS
My Commission Expires
April 7, 2017

Court File No.

INTERNATIONAL FOREST PRODUCTS CORPORATION v. ST. MARYS PAPER CORP.

Applicant Respondents

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

AFFIDAVIT OF DANIEL J. MOORE
(SWORN AUGUST 31, 2011)

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12501678.7

EXHIBIT "B"

Court File No. CV-11-9367-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

INTERNATIONAL FOREST PRODUCTS CORPORATION

Applicant

- and -

ST. MARYS PAPER CORP.

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

SUPPLEMENTAL AFFIDAVIT OF DANIEL J. MOORE
(Sworn September 27, 2011)

I, DANIEL J. MOORE, of the Town of Needham, in the Commonwealth of Massachusetts, in the United States of America, **MAKE OATH AND SAY AS FOLLOWS:**

1. I am the Chief Operating Officer of the Applicant, International Forest Products Corporation ("**IFP**"). As such, I have knowledge of the matters deposed to in this affidavit. Where this affidavit is not based on personal knowledge, it is based on information and belief and I verily believe such information to be true.

2. This affidavit is supplemental to my affidavit sworn August 31, 2011 (the "**August 31 Affidavit**") in support of an application by IFP for the appointment of Ernst & Young Inc. ("**E&Y**") as receiver and receiver and manager (in such capacity, the "**Receiver**") of all of the property, assets and undertaking of the Respondent St. Marys Paper Corp. ("**St. Marys**"), pursuant to section 243(1) of the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**") and section 101 of the *Courts of Justice Act* (Ontario).

3. All capitalized terms and phrases used and not otherwise defined herein have the meanings given to them in the August 31 Affidavit.

Delivery of Notice of Application

4. On August 31, 2011, IFP provided St. Marys and the service list with a copy of its Notice of Application seeking the appointment of the Receiver (the "**Notice of Application**") and advised St. Marys that IFP had arranged for the Notice of Application to be heard on September 7, 2011. A true copy of the Notice of Application is attached hereto as **Exhibit "A"**.

Settlement Discussions

5. On September 1, 2011, St. Marys contacted IFP to discuss a potential settlement of the Current Indebtedness. In order to allow for good faith settlement discussions to continue, IFP agreed not to serve its Notice of Application and related materials.

6. In the course of these discussions, St. Marys advised that they were in discussions with a third party lender (the "**New Lender**") who was prepared to make advances to St. Marys, which advances would be applied by St. Marys against the Current Indebtedness. In consideration, the New Lender sought certain accommodations from IFP.

7. By close of business on September 1, 2011, IFP and St. Marys had reached an agreement on the material terms of the settlement and IFP had instructed its counsel to prepare a forbearance agreement setting out these terms. The draft forbearance agreement was conditional upon, among other things, St. Marys obtaining financing from the New Lender in a prescribed amount, which would be applied against the Current Indebtedness, and St. Marys directing to IFP, upon receipt, a Harmonized Sales Tax refund in the amount of $773,127 (the "HST Refund"). The draft forbearance agreement also contemplated a full and final satisfaction of the balance of the Current Indebtedness on certain terms.

8. On September 1, 2011, IFP agreed to seek an adjournment of the September 7 hearing to allow the parties to continue to discuss a potential settlement of the Current Indebtedness.

Notice to Service List

9. By letter dated September 2, 2011, IFP's counsel advised the service list that IFP and St. Marys had been engaged in discussions to resolve the matter and had agreed to seek an adjournment of application to a date to be determined by the Court. A true copy of the September 2 letter is attached hereto as **Exhibit "B"**.

September 7 Appearance

10. On September 7, 2011, IFP's counsel sought and obtained an adjournment of the matter until September 14, 2011 to allow settlement discussions to continue.

11. By letter dated September 8, 2011, IFP's counsel advised the service list of the new date. A true copy of the September 8 letter is attached hereto as **Exhibit "C"**.

September 14 Appearance

12. On September 14, 2011, IFP's counsel sought and obtained a further adjournment of the matter until September 28, 2011 to allow settlement discussions to continue.

13. By letter dated September 15, 2011, IFP's counsel advised the service list of the new date. A true copy of the September 15 letter is attached hereto as **Exhibit "D"**.

Further Settlement Discussions

14. Over the course of the settlement discussions the transaction structure changed from a loan to St. Marys to an acquisition by the New Lender from IFP of a participating interest in the Current Indebtedness. The material terms set out in paragraph 7 were consistent throughout the discussions.

15. In light of the liquidity crisis facing St. Marys, as more particularly described in the August 31 Affidavit, IFP set a deadline to close the settlement transaction.

Neither St. Marys nor the New Lender provided a meaningful response by the deadline, and the cause of the delay was not explained.

16. On September 26, 2011, St. Marys advised IFP that the New Lender was no longer interested in doing a transaction with IFP. At this time, St. Marys advised IFP that it had scheduled a shareholders' meeting on September 27, 2011 to discuss further settlement options.

17. On September 27, 2011, St. Marys made a final settlement proposal to IFP. IFP rejected the proposal and advised St. Marys that it would be proceeding with its application to appoint the Receiver.

Need for Relief

18. As set out in the August 31, 2011 Affidavit, St. Marys faces an immediate liquidity crisis. St. Marys has secured no new financing since the August 31 Affidavit and has been unable to reach a settlement with IFP.

19. St. Marys is expected to receive the HST Refund in the coming weeks. The HST Refund is a refund of monies that were paid by IFP on behalf of St. Marys. If received, IFP expects that the HST Refund proceeds will be used by St. Marys to maintain the idled Mill, which will represent a further erosion of IFP's collateral.

20. For these reasons, and all of the reasons set out in the August 31 Affidavit, IFP believes that it is necessary to appoint a receiver in order to allow for an orderly, court-supervised forum for the realization upon St. Marys' assets, including a

potential going concern sale, for the benefit of all stakeholders and to prevent any further erosion of IFP's security position.

21. This affidavit is made in support of IFP's application for the appointment of a receiver and receiver and manager of St. Marys, and for no other or improper purpose.

SWORN BEFORE ME at the Town of Foxborough)
in the Commonwealth of Massachusetts)
this 27 day of September, 2011)

A Commissioner of Oaths, etc.

AIMEE L DESJOURDY
Notary Public
COMMONWEALTH OF MASSACHUSETTS
My Commission Expires
April 7 2017

DANIEL J. MOORE

Court File No.

INTERNATIONAL FOREST PRODUCTS CORPORATION v. ST. MARYS PAPER CORP.

Applicant | Respondents

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

AFFIDAVIT OF DANIEL J. MOORE
(SWORN SEPTEMBER 27, 2011)

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12508766.1

EXHIBIT "C"

Court File No. CV-11-9367-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

INTERNATIONAL FOREST PRODUCTS CORPORATION

Applicant

- and -

ST. MARYS PAPER CORP.

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

SECOND SUPPLEMENTAL AFFIDAVIT OF DANIEL J. MOORE
(Sworn October 6, 2011)

I, DANIEL J. MOORE, of the Town of Needham, in the Commonwealth of Massachusetts, in the United States of America, **MAKE OATH AND SAY AS FOLLOWS:**

1. I am the Chief Operating Officer of the Applicant, International Forest Products Corporation ("**IFP**"). As such, I have knowledge of the matters deposed to in this affidavit. Where this affidavit is not based on personal knowledge, it is based on information and belief and I verily believe such information to be true.

2. This affidavit is supplemental to my affidavit sworn August 31, 2011 (the "**August 31 Affidavit**") and my supplemental affidavit sworn September 27, 2011 (the "**September 27 Affidavit**") in support of an application by IFP for the appointment of Ernst & Young Inc. ("**E&Y**") as receiver and receiver and manager (in such capacity, the "**Receiver**") of all of the property, assets and undertaking of the Respondent St. Marys Paper Corp. ("**St. Marys**"), pursuant to section 243(1) of the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**") and section 101 of the *Courts of Justice Act* (Ontario). Copies of the August 31 Affidavit and the September 27 Affidavit (without Exhibits) are attached hereto as **Exhibits "A"** and **"B"**, respectively. This affidavit is sworn in support of certain interim relief sought by IFP on its receivership application.

3. All capitalized terms and phrases used and not otherwise defined herein have the meanings given to them in the August 31 Affidavit and the September 27 Affidavit.

4. On September 28, 2011, counsel for IFP and St. Marys attended before the Honourable Mr. Justice Brown of the Commercial List to set a date and timetable for the return of IFP's receivership application. As set out in Justice Brown's Endorsement, a copy of which is attached hereto as **Exhibit "C"**, IFP's receivership application was scheduled for October 17, 2011(the "Receivership Application").

5. By letter dated September 29, 2011 (the "September 29 Letter"), a copy of which is attached hereto as **Exhibit "D"**, Michael McGraw ("McGraw") of Blake,

Cassels & Graydon LLP, counsel for IFP, advised then-counsel for St. Marys of IFP's numerous concerns with respect to the interim period prior to the return of the Receivership Application. In particular, IFP requested confirmation that St. Marys immediately advise IFP if and when pending HST and real estate tax refunds are received. As described in the September 27 Affidavit, St. Marys is expected to receive the HST Refund in the amount of $773,127 imminently, which is a refund of monies that were paid by IFP on behalf of St. Marys. If received, IFP is concerned that the HST Refund proceeds will be used by St. Marys to maintain the idled Mill, or to pay other creditors, which would result in a further erosion of IFP's collateral.

6. Further, IFP requested that its financial advisor, Ernst & Young, Inc. ("Ernst & Young"), be provided with immediate access to the books and records of St. Marys. As described in the August 31 Affidavit, pursuant to an engagement letter dated July 19, 2011, a copy of which is attached hereto as **Exhibit "E"**, St. Marys consented to the appointment of Ernst & Young as financial advisor to IFP with respect to St. Marys and provided Ernst & Young with access to its business operations, assets, and books and records.

7. Pursuant to section 9.6 of the Loan Agreement between St. Marys and IFP dated December 8, 2010, a copy of which is attached hereto as **Exhibit "F"**, St. Marys agreed to permit IFP to, among other things, inspect its corporate books and financial records.

8. Pursuant to section 6.1(k) of the General Security Agreement between St. Marys and IFP dated December 8, 2010, a copy of which is attached hereto as **Exhibit "F"**, St. Marys agreed to deliver to IFP, upon request, among other things, all books of account and all records, ledgers, reports, correspondence, schedules, documents, statements, lists and other writings relating to the Collateral for the purpose of inspecting, auditing or copying and such information concerning the Collateral, St. Marys, and St Marys' affairs as IFP may require.

9. I am advised by McGraw that subsequent to the sending of the September 29 Letter, he had discussions with and exchanged correspondence with former and current counsel for St. Marys, who advised that a response from St. Marys to the September 29 Letter would be forthcoming. However, McGraw did not receive a response until late in the day on October 5, 2011, six days after the letter was sent, and only after advising current counsel that IFP intended to bring a motion for interim relief. As of the swearing of this Affidavit, the parties have not reached an agreement on the terms of what information will be provided by St. Marys to IFP in response to the September 29 Letter.

10. As set out in the August 31 Affidavit and the September 27 Affidavit, St. Marys has been and continues to face an immediate liquidity crisis. St. Marys has secured no new financing since the August 31 Affidavit and has been unable to reach a settlement with IFP.

11. Accordingly, it is IFP's position that, in light of St. Marys' delay in responding to the September 29 Letter and continued refusal to adequately respond to IFP's

concerns as set out in the September 29 Letter, interim relief is required in order to prevent any further erosion of IFP's security prior to the hearing of the Receivership Application on October 17.

12. This affidavit is made in support of IFP's application for interim relief in this matter, and for no other or improper purpose.

SWORN BEFORE ME at the Town of)
Foxborough in the Commonwealth)
of Massachusetts this 6th day of October, 2011)
)
)
)

A Commissioner of Oaths, etc.

AIMEE L DESJOURDY
Notary Public
COMMONWEALTH OF MASSACHUSETTS
My Commission Expires
April 7, 2017

DANIEL J. MOORE

Court File No.

INTERNATIONAL FOREST PRODUCTS CORPORATION v. ST. MARYS PAPER CORP.

Applicant — Respondents

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

SECOND SUPPLEMENTAL AFFIDAVIT OF DANIEL J. MOORE (SWORN OCTOBER 6, 2011)

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Lawyers for the Applicant

12510946.2

EXHIBIT "D"

Court file no. CV-11-9367-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

INTERNATIONAL FOREST PRODUCTS CORPORATION

APPLICANT

and

ST. MARYS PAPER CORP.

RESPONDENT

AFFIDAVIT OF GORDON P. ACTON

I, Gordon P. Acton, of the City of Sault Ste. Marie, in the District of Algoma, make oath and say as follows:

1) I am the President of St. Marys Paper Corp. (hereinafter referred to as "SMPC") and as such have personal information of the matters hereinafter deposed to except where stated to be based on information and belief.

2) SMPC is a specialty paper producer located in the City of Sault Ste. Marie, District of Algoma. It is one of the area's major employers with 1000 direct and indirect jobs relying on the operation of the Paper Mill itself. While the Mill has been closed since March of 2011, the bulk of the employees are willing, ready and able to return to work, continue to receive vacation pay and have not given up recall rights.

3) A major asset of the SMPC is as the sponsor, prime investor, and steam host of a Co-Generation Facility ("Co-Gen") project to be built on SMPC land immediately adjacent to the paper mill, which will produce steam for use in the papermill, and electricity which will be sold to the Ontario Power Authority pursuant to the terms of a ten year Power Purchase Agreement that has been successfully negotiated and executed. The Power Purchase Agreement is attached hereto as **Exhibit "A"**. This will create 400 direct jobs during the $150,000,000.00 (One-Hundred and fifty million dollar) construction project, and 150 full time jobs during the Co Gen's operation. The commissioning of Co-Gen is expected to take place in April of 2014. Presently SMPC has a commitment of a $25 million dollar grant, and a $25 million dollar subordinated loan guarantee from the Province of Ontario, and an additional $25 million from an experienced and financially capable diversified energy company with experience in co gen projects who wishes to partner with SMP on the co gen project. The co gen project has been discussed with several institutional and chartered bank lenders, and is a project which is such lenders are prepared to provide the required 75 million debt financing.

4) As such, the SMPC operation has a significant impact on the Sault Ste. Marie economy and the prejudice of IFP's actions will be felt by the company and the community the whole.

5) The value of the security held by IFP is significantly higher than the debt owed to IFP. The value of the collateral is not declining but rather is increasing and as such

IFP's position on their debt is secure. But for the fact that IFP has actively cut-off all business revenue of SMPC, there would be no financial crisis at the Mill. I will discuss the following issues in more detail below.

6) It is critical to realize that the actions of IFP jeopardize the Power Purchase Agreement that we have negotiated with the Province and threaten to overturn a quarter billion dollar revenue stream for the area to cover a debt that is likely less than $5,000,000.00 (5 million dollars).

7) The assets of SMPC are significantly understated in the IFP material.

8) The assets are made up of three (3) main categories:

1) Real Property;
2) Inventory, Equipment and other Chattels;
3) Co-generation Project/Power Purchase Agreement;

9) The current ownership group purchased the subject property from a Bankruptcy Trustee, RMS Richter on July 9, 2007. A copy of the asset purchase agreement is attached hereto as **Exhibit "B"**. The purchase price for the subject mill was $9,283,000.

Real Property

10) The subject site is improved with a complex of 36 major interconnected Mill

structures. Complex totals the sum of 515,307 square feet. The structures are generally steel framed industrial buildings of various sizes and heights enclosing the ground wood pulping and paper making operation.

11) The Assessment Review Board has recently ruled that the value of the real property of SMPC is $3,280,000.00. Copies of the decisions in this regard are attached hereto as **Exhibit "C"**.

12) The property is located in Sault Ste. Marie immediately adjacent to other industrial users such as Essar Steel Algoma Inc. and Tenaris Algoma Tubes. The real property is located on approximately 35 acres in the heart of Sault Ste. Marie with access to water, rail transportation, the International Bridge to Sault Ste. Marie Michigan and the Trans Canada Highway.

13) There are no reasons to expect a significant change in the value of the property as a Super Calendar Paper Mill over the foreseeable future.

Inventory and Equipment

14) The Mill operation houses three paper making machines, various super calendar machines, winders, re-winders and associated equipment. They are made primarily of ferrous and non-ferrous metals and in a worst case liquidation scenario could be sold for the metal scrap value.

15) At the time of the purchase by the current ownership group, a valuation of the equipment had been prepared by Gordon Brothers who estimated that the equipment, on June 22, 2006 was worth between \$4,598,439.00 and \$9,181,850.00. This report did not include the following assets in the valuation:

> The appraisal does not include a valuation of the raw materials, work-in-process, or finished goods inventories. GBG has been retained to conduct an appraisal of the inventory, but those results are reported in a separate appraisal report. The value of purchased repair parts or replacement parts has not been considered. No product line-dedicated tooling or computer software is valued in this report.

The scrap value of the plant, therefore, is higher than reported in the Gordon Brothers' report.

16) During the sale, the mill underwent a competitive bid process which resulted in a number of scrap bids for the equipment. Attached hereto as **Exhibit "D"** is the summary of bids received by RMS Richter.

17) As can be seen from the summary, the Danbury group made a scrap bid of \$8,750,000 to liquidate the equipment in the mill which SMPC believes is the best evidence of the scrap value of the machinery and equipment as at May 7, 2007. This establishes the scrap value of the metal at SMPC in the amount of \$8,750,000.00.

18) In the Danbury bid, the bidder intended to scrap out the facility for a profit after purchasing it and paying out all labour, material and transportation costs to realize and income from the scrap metal.

19) I have investigated the price for scrap metal by contacting Essar Steel Algoma Inc., a local integrated steel making facility and purchaser of scrap metal. I am informed by Edward Bumbacco, General Manager of Purchasing at Essar Steel Algoma Inc., and verily believe it to be true that scrap prices paid by Essar were on average $232 per ton in 2007 and have averaged $366 per ton in 2011, YTD. This represents an increase of 57%.

20) The market price for ferrous scrap metal has risen more than 50% since May of 2007. This market price has been driven by the Essar Steel Algoma facility located immediately west of the SMPC facility. Based on this information, the 2011 market value for the scrap located at SMPC would be in excess of $13,700,000.00 to a scrap dealer still enabling that firm to make a profit. It may be possible to sell the scrap at a higher value directly to Essar Steel Algoma.

21) The scrap value of the facility does not degrade over time and is not dependent upon the paper market. It is only subject to the market price of scrap metal and not any changes to the assets themselves. This is important to understand in considering that it is not accurate for IFP to state that the value of their collateral in the equipment is decreasing. This will not depend on whether or not the facility operates nor whether or not the equipment is winterized.

Inventory

22) Two internal documents related to inventory are attached hereto as **Exhibits "E"**

and "F". The most recent document shows the spare parts inventory and demonstrates the book value of the spare parts located at SMPC. The book value was adjusted because of the 2007 bankruptcy and purchase. But the estimated potential liquidation value is shown for this inventory at $2,916,902.00. This would be in addition to the scrap prices obtained for the machinery and equipment.

23) Exhibit "F" being the second internal document shows the recent major capital projects that are completed and have been installed in the Mill, totaling some $180,000,000.00. This demonstrates that there are components of the Mill that could be sold for far in excess of the scrap value of the metal. For example, the quality control systems shown on the project listing are the latest Honeywell Da Vinci Platforms which are still the standard today.

24) In addition to the onsite assets, SMPC owns 60% of a remote tourism business called Ontario Wilderness Vacations as well as a 22,000.00 square foot off site warehouse. The market value of these two assets is in excess of $1,000,000.00.

25) It appears based on the foregoing that the assets over which IFP has security have a present market value in excess of $19,000,000.00. As such even if the debt to IFP were as stated which is not admitted but denied there is more than ample value to secure the debt.

Co-Generation Facility

26) When the present ownership group purchased SMPC, it was the collective vision to run the facility not only as a manufacture of super calendar paper but to establish a

Co-Generation Facility with the Paper Mill.

27) In short, the Co-Generation Facility would generate electricity using wood waste from the Paper Mill to produce electricity and steam. The electricity would be sold into in the Provincial Power Grid and the steam would be used for the paper making process. This is referred to as a combined heat and power Co-Generation Facility.

28) In furtherance of this plan, Shareholders of SMPC have established a sister company called St. Marys Renewable Energy Corp. ("SMREC") and have successfully negotiated a Power Purchase Agreement with the Ontario Power Authority in the form attached hereto. This document is the necessary permission to construct and attach the Co-Generation Facility to the Ontario Power Grid and commits the Ontario Power Authority to purchase power from the Co-Generation Facility at a set, and financially lucrative rate for a minimum of ten (10) years. This project is set to generate free cash flow of $250,000,000.00 per year of operation and has a net present value of the project in excess of $25,000,000.00 presently.

29) The negative impact on this asset of a receivership will be discussed below.

Risk that Value of Collateral will Reduced over Short Term

30) The value of the collateral held by IFP will not decrease over the short term.

31) The Mill is currently in a warm idle and can be restarted at anytime within four (4)

to six (6) weeks.

32) There is no reason to believe that the value of the real property or improvements will change substantial. There is no danger to the owner's title to the buildings nor to the buildings themselves. This is especially true due to the fact as the Mill is not in operation there is limited access to the facility by personnel and therefore, limited opportunity for any substantial damage to the property. The security staff remain on site and accordingly, there is no danger to the value of the real property or improvements.

33) I have contacted Essar Steel Algoma, a steel producer located in Sault Ste. Marie adjacent to SMPC. I am informed by Edward Bumbacco, General Management of Purchasing for Essar Steel Algoma Inc. and verily believe it to be true that Essar Steel was paying $232.00 per ton of scrap metal in 2007 and in 2011 year to date is averaging $366.00 per ton, an increase of 57%.

34) Scrap value of the equipment is increasing. This change has been marketed since 2007 when the current ownership group purchased the property and continues to increase at present. As such, the value of the equipment from a scrap point of view continues to increase.

35) The scrap value of the equipment is not dependent on any factors apart from the market value for scrap metal and as such, an activity at the Mill plays no role in the value of the equipment as scrap metal. Accordingly, there is no danger that this

component of IFP's collateral will decrease in value over the short term. To the contrary, the collateral appears to be increasing in value.

Value of SMPC Product Held by IFP

36) The latest information of SMPC is that IFP is holding 2,512 tons of paper produced by SMPC prior to the March 2011 shut down.

37) The current prevailing price for 33 lbs. Super Calendar paper is $812.00 per ton. This would mean the value of the inventory held by IFP is presently $2,039,744.00.

38) When IFP ordered this paper they valued the product at $700.00 per ton and paid SMPC 50% of that value. This amounts to $879,200.00. Accordingly, the value of the unsold inventory to SMPC is $1,160,544.00 minus financing costs.

39) This amount cannot be accurately calculated due to the fact that IFP has refused to produce accurate sales information about this inventory to SMPC.

40) There is demand for Super Calendar paper at the prevailing price as documented by RISI on a daily basis.

41) The failure to sell this inventory and continue the revenue stream to SMPC is choking off SMPC's ability to survive as a business and is a clear failure of IFP to follow its contractual obligations and its obligation to mitigate its losses.

42) Additionally, the value of Super Calendar paper is directly related to its brightness. The paper yellows with age; which means that the longer IFP holds the

paper in its inventory, the less its value will be on eventual sale.

43) IFP also charges SMPC storage costs which continue to mount on the unsold inventory.

44) It is not commercially reasonable for IFP to store this paper and to fail to sell it at the prevailing price currently reported by RISI.

Negative Effects Of A Receivership On The Co-Generation Project

45) A Receivership would be a breach of the Power Purchase Agreement and would kill the Co-Generation Project eliminating a $150,000,000.00 project in Algoma District and 150 direct jobs to be created by the Co-Generation Facility. It is the company's understanding that if the Power Purchase Agreement was breached, negotiations would have to start over. We believe that it would not be possible to renegotiate another Power Purchase Agreement on similar terms.

46) Additionally, the survival of St. Mary's Paper Corporation would be terminated due to the loss of its major asset, a fundamental component of a modern fiber industry business.

Loss Of Provincial Funding For Co-Gen Project

47) The $25 million prosperity fund grant to SMPC for the construction of the co-gen project would be canceled if the receivership process occurs. The Events of Default of the agreement are clear on this issue.

48) Attached hereto as **Exhibit "G"** is a copy of the Prosperity Fund Agreement.

49) Article 8 Events of Default reads:

> (e) if the Recipient (i) is dissolved, liquidated or wound up or makes a proposal in writing to be dissolved; (ii) admits in writing its inability generally to pay its debts as they become due; (iii) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (iv) institutes a proceeding seeking a judgment of bankruptcy or a receiving order or an order adjudicating or declaring it to be bankrupt or insolvent or seeking liquidation, winding-up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debt under any law including the Companies Creditors Arrangement Act or the Bankruptcy and Insolvency Act; (v) has a resolution passed for its winding-up, official management or liquidation; (vi) seeks or becomes subject to the appointment of an administrator, liquidator, receiver, receiver-manager, trustee or similar official for it or for all or substantially all its assets; (vii) has a secured party take possession of a substantial or material portion of its assets or has a distress, execution, attachment, sequestration or other legal process levied or enforced on or against a substantial or material part of its assets; (viii) ceases to carry on business; or (ix) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts or events;
>
> (a) if any bankruptcy, reorganization, arrangement or insolvency proceedings for relief under any bankruptcy or similar laws for the relief of debtors, including, without limitation, any of the proceedings or petitions described in subparagraph (e) above are instituted against the Recipient and are consented to by the Recipient or, if contested by the Recipient , are not dismissed within thirty (30) days; and

Loss Of Co-Gen Project

50) The co-gen project requires a host to utilize the Useful Heat Output (15% of the thermal load) of the project.

51) If SMPC is in receivership and is not operating when the project commercial operation date occurs the project price would revert to zero and the project would not operate.

52) The financiers and potential partners for the project will not support the project if

it is in receivership as a result of this clause in the Power Purchase Agreement.

53) Power Purchase Agreement is attached.

PPA, Prosperity Fund And Loan Guarantee Impacts Of Receivership

54) Requirement for the existence and operation of SMP as the Host under the PPA and the Ontario Loan Agreements.

Requirements Under The PPA:

1. Parties to the PPA are St. Mary's Renewable Energy LP who executed the PPA through its general partner St. Mary's Renewable Energy Corp. and the Ontario Power Authority. SMP is not a direct signatory nor party to the Agreement but is referred to in the Agreement as hereinafter described.

2. SMREC LP is the Supplier under the PPA and SMP is the Host under the PPA. The Facility described the Exhibit A has a Host – Developed Project using renewable biomass as its primary fuel. The Facility supplies Useful Heat Output to the adjacent existing Pulp and Paper Mill owned and operated by St. Mary's Paper Corp.

3. The definition of Useful Heat Output (UHO) is on page 25 of the PPA and Minimum UHO Requirement at page 17. When read together with description of Useful Heat Output section 15.7 and the description of the payment of the monthly payment for production of electricity section 3.4 require the Host to be delivered a minimum of 15% of the UHO on an annual basis failing which contract price is reduced by the UHO Price Reduction Factor. If the host is not receiving any thermal load from the supplier during the first three years of commercial operation the price of power would be $0.00 per MW.

4. The Useful Heat Output means thermal energy produced and used for gainful commercial or industrial purpose which is manufacturing or other industrial process as approved by the Buyer where such use...is not a use within the Facility...fuel heating is not a use outside of the Facility for applications such heating rivers, lakes, or the atmosphere ...most be used for a gainful commercial or industrial purpose does not include the use of the thermal energy primarily for generating electricity.

5. The Supplier may restate the Contract Price permitted in accordance with its Proposal. No restatement was contained in the Proposal of SMREC LP. Section 2.11 (a)(i) states a Restatement shall not be permitted if the Proposal

does not specific and incremental Contract Price expressed in the same format.... In any event, a Restatement is not allowed earlier than 3 years from the Commercial Operation Date (see section 2.11(a)(ii)(a).

6. If Restatement is allowed the reduction in the Conduct Price is not reduced by the UHO being less than 15% given that Restatement is usually as a result of the failure of the Host.

7. If the Host Facility (meaning the Facility is owned or operated by the Host that utilizes the Useful Heat Output generated by the Facility) is subject to a Host Facility Force Majeure (definition at page 13) then the Supplier shall promptly notify the Buyer providing particulars and elect whether or not it shall operate the facility to produce electricity during the period of the Host Facility Force Majeure in which case the Supplier shall be paid for delivered electricity in accordance with section 3.4 and operational data for the Facility during the Host Facility Force Majeure shall not be included in the calculation of ...the percentage of energy generated by the Facility attributable to Useful Heat Output sold by the Supplier to the Host Facility and capacity checks do not take into account generated and delivered UHO to the Host Facility (see page 83 clause 11.1(j).

Change Of The Host

8. The Host can be changed from St. Mary's Paper Corp. pursuant to section 2.12(b) which allows that the Host may be sold provided the supplier has provided written notice to the Buyer and the new owner of the Host Facility has agreed in writing to assume the Off Take Agreement.

Change Of Control

9. Control is defined on page 7 of the PPA as "Ownership interests equal to 50% of the votes or have a de facto control. The Supplier shall not permit or allow a Change of Control of the Supplier except with the written consent of the Buyer which consent may not be unreasonable withheld.

10. If the Facility is a Host Facility and the Buyer has **not** been provided a guaranty in the form of Exhibit P the ownership in the Supplier by the Host shall not be less than 30% except with the prior written consent of the Buyer which consent prior to the Commercial Operation Date may be unreasonably withheld and after the Commercial Operation Date may not be unreasonably withheld (note we have not provided a guaranty as per Exhibit P).

11. Withstanding the above section 16.7 states that any change of Control in respect of the Supplier will not be permitted until the 3rd anniversary of the Commercial Operation Date.

Provisions Of The Provincial Loans

12. Pursuant to the Loan Agreement dated the 8th day of December 2010 clause 4.1(h) and section 1.14 of Schedule D SMP will continuously employ not less than 166 full-time employees at its Paper Mill in Sault Ste. Marie, Ontario.

Twenty-Five Million Dollar Grant And Twenty-Five Million Ontario Loan Guaranty

13. In order to obtain the new Minister's signature on the twenty-five million dollar ($25,000,000.00) grant and loan guaranty we expect that the Bureaucrats would insist on a go forward plan consistent with the language in the Provincial Loan Document, to show that at least the 166 full-time workers will be employed at SMP. Product may well change but the necessity to have an industrial entity producing a product I believe is clear.

55) The following expenditures will be required at the mill during the period from today leading up to the receivership hearing.

	Oct 8 - 17, 2011	
$000		
Receipts	0	
Cash Disbursements		
Payroll	34	Manning of gatehouse, environment and asset monitoring, HR Acct'g
Employee Health Tax	2	Priority payable on payroll
Standard Life- pension	12	Priority payable – deducted from wages and company matched
Industrial Alliance – benefits/life	20	Dental/Drug/Life Ins
Bell Canada	2	Main telephone lines
Telus-cell phones/AT&T (US)	3	Cell phones/Blackberries
Public Utility Commission	8	Water/Sewer
Total Cash Disbursements	81	

56) Additionally, we have, as a result of IFP's institution of this application, had to pay legal retainers in the amount of $100,000 to resist the receivership application and preserve the Cogeneration project.

57) At present we have not received the Municipal Tax refund and at present the amount has not been calculated, however it is estimated to be approximately $1,000,000.00 to $1,500,000.00 net of the Solicitor's Lien. Efforts are under way to calculate the amount of that refund. At present MPAC and the City of Sault Ste. Marie have not indicated whether or not they will appeal the decision of the Assessment Review Board. SMPC does not intend to appeal the decision.

58) There is a Solicitors Lien against the municipal tax refund in the amount of $414,892.88 evidenced by an Order of the Superior Court of Justice dated July 7th, 2011 which order is attached hereto as **Exhibit "H"**. These funds will be paid out of the refund before the remainder of the funds will be paid to SMPC.

59) SSMPC continues to keep dialogue open with IFC. SMPC is continuing both to attempt to resolve IFP's concerns and also to provide information about significant ongoing financing efforts necessary to take out IFP as a creditor. The last in a series of letters wherein SMPC has been attempting to resolve matters with IFP is attached hereto as **Exhibit "I"**.

SWORN BEFORE ME at the City of Sault Ste. Marie, in the District of Algoma, this 6th day of October, 2011.	)))	
A Commissioner, etc.		GORDON P. ACTON

INTERNATIONAL FOREST PRODUCTS CORPORATION -and- ST. MARYS PAPER CORP.

APPLICANT RESPONDENT

(Short title of proceeding)

Court file no. CV-11-9367-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)

AFFIDAVIT OF GORDON P. ACTON

DYE & DURHAM CFS
Name, address, telephone and fax numbers of solicitor or party

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J.PAUL R. CASSAN
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Solicitor for the Respondent

EXHIBIT "E"

Court File Number: 11-CV-9367CL.

Superior Court of Justice
Commercial List

FILE/DIRECTION/ORDER

INTERNATIONAL FOREST PRODUCTS.
Plaintiff(s)

AND

ST. MARYS PAPER CORP
Defendant(s)

Case Management ☐ Yes ☐ No by Judge: ____________

Counsel	Telephone No.:	Facsimile No.:

☐ Order ☐ Direction for Registrar **(No formal order need be taken out)**
☐ Above action transferred to the Commercial List at Toronto (**No formal order need be taken out**)

☐ Adjourned to: ____________
☐ Time Table approved (as follows):

The motion of IFP for interim relief returnable today is adjourned to Oct. 17 on terms to which the parties have agreed which will be attached by counsel 2 hours. returnable Oct. 17/11.

In the event that matters are not substantially resolved by Oct. 17/11 a further hearing is hereby scheduled for Oct. 27 for a full day on a schedule which counsel will outline but may not be finalized until Oct. 17/11

Oct. 7/11
Date

C Campbell J.
Judge's Signature

☐ Additional Pages ____________

1. St. Marys Paper shall immediately provide its current cash balance to Ernst & Young and to provide Ernst & Young with its cash balance at the close of business of each business day until the receivership application is heard and finally disposed of;

2. St. Marys Paper shall provide to Ernst & Young by ~~the close of business~~ 5pm on October ~~7~~ 8, a reconciliation of its cash balance from August 15, 2011 to October 5, 2011 showing receipts and disbursements for this period, including an explanation of the source of the current cash balance;

3. St. Marys Paper shall provide to Ernst & Young by ~~the close of business~~ 5pm on October ~~7~~ 8, the details of all projected expenditures between October 6, 2011 and October 17, 2011 (inclusive);

4. St. Marys Paper confirms and undertakes that it will not transfer, dispose of, remove or encumber any assets until the receivership application is heard and finally disposed of; and

5. St. Marys paper shall not make disbursements between the date hereof and the return of the receivership application on October 17, 2011 in excess of ~~$181,000~~ $81,000, as set out in the Affidavit of Gordon Acton sworn October 7, 2011.

Court File No. CV-11-9367-00CL

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

UNOFFICIAL TRANSCRIPTION OF THE ENDORSEMENT OF THE HONOURABLE MR. JUSTICE CAMPBELL DATED OCTOBER 7, 2011

The motion of IFP for interim relief returnable to-day is adjourned to Oct. 17 on terms to which the parties have agreed which will be attached by counsel. 2 hours returnable Oct. 17/11.

In the event that matters are not substantially resolved by Oct. 17/11 a further hearing is hereby scheduled for Oct. 27 for a full day on a schedule which counsel will outline but may not be finalized until Oct. 17/11.

EXHIBIT "F"

STMARYSPAPER

October 7, 2011

Attention: Michael McGraw | Blakes
Blake, Cassels & Graydon LLP
199 Bay Street
Suite 2800, Commerce Court West
Toronto, ON M5L 1A9

RE: St. Marys Paper Corp

Per the endorsement of Justice Campbell, we confirm that SMPC will not transfer, dispose of, remove or encumber any assets until the receivership application is heard and finally disposed of; and that SMPC will not make disbursements between the date hereof and the return of the receivership application on October 17, 2011 in excess of $81,000 as set out in my affidavit sworn October 7th, 2011.

Yours truly,

GORDON P. ACTON
President

cc. Paul Guy
cc. Paul Cassan

EXHIBIT "G"

St. Marys Paper Corp

Cash Flow August 15 - October 7 2011

	Aug 15-20	Aug 21-27	Aug 28-Sep 3	Sep 4-10	Sep 11-17	Sep 18-24	Sep 25-Oct 1	Oct 2-7	Notes
$000									
Receipts	0	11	50	80	6	39	647	0	
Cash Disbursements									
Payroll	15	33	10		46	7	32	11	Manning of gatehouse, environment and asset monitoring, HR, Acct'g
Source Deductions - payroll (CRA	11	5		8		14		15	Priority payable on payroll
Employer Health Tax	2				2				Priority payable on payroll
WSIB - payroll exp			3				18		Priority payable on payroll
Standard life - pension							12		Priority payable - deducted from wages and company matched
Union dues								1	Priority payable - deducted from wages
Industrial Alliance - benefits/life	89						11	20	Dental/Drug/Life Ins
Sales Technicians pay			13				13		Paper inventory maintenance
Corporate VISA - RBC	2					0	10		travel/meals/emergency exp
Vianet - internet/email				1				1	internet/ email provider
Bell Canada		3		2	2	2	3	10	Main telephone lines
Telus - cell phones									Cell phones/Blackberries
Public Utility Commission				8					Water/sewer
CAFO - property insurance			45					45	insurance on asset - monthly pmts
IESO		52					50		Power/lights
Travel Expenses		15			2		1	54	travel expenses
Mill Sale Consultant								61	retainer
Legal Retainers								100	retainers
RBC - envoked Letter of Credit								56	to be offset by GIC, redeemed w/e Oct 14
RBC - bank fees/FX on transfers	(0)	9	0	2			10		Bank fees
Total Cash Disbursements	119	116	71	20	52	22	159	373	
Net cash inflow (outflow)	(119)	(105)	(21)	60	(46)	17	488	(373)	
Bank - opening book balance	262	143	38	18	78	32	49	537	
Bank - closing book balance	143	38	18	78	32	49	537	164	

	Oct 8 - 17, 2011	Oct 18 - 31, 2011	Notes
$000			
Receipts	60	0	GIC redeemed for envoked Letter of Credit Oct 7th
Cash Disbursements			
Payroll	34	46	Manning of gatehouse, environment and asset monitoring, HR, Acct'g
Source Deductions - payroll (CRA)		15	Priority payable on payroll
Employer Health Tax	2		Priority payable on payroll
WSIB - payroll exp		3	Priority payable on payroll
Standard life - pension	12		Priority payable - deducted from wages and company matched
Union dues		1	Priority payable - deducted from wages
Industrial Alliance - benefits/life	20		Dental/Drug/Life Ins
Sales Technicians pay		13	Paper inventory maintenance
Bell Canada	2	3	Main telephone lines
Telus - cell phones	3		Cell phones/Blackberries
Public Utility Commission	8		Water/sewer
IESO		50	Power/lights
RBC - bank fees/FX on transfers		2	Bank fees
Total Cash Disbursements	81	133	
Net cash inflow (outflow)	(21)	(133)	
Bank - opening book balance	164	144	
Bank - closing book balance	144	11	

St Marys Paper Corp

Receipts August 15 - October 7 2011

	Aug 15-20	Aug 21-27	Aug 28-Sep 3	Sep 4-10	Sep 11-17	Sep 18-24	Sep 25-Oct 1	Oct 2-7
$000 **Receipts**	0	11	50	80	6	39	647	0
Breakdown of Deposits:								
Ownership deposit			50	70		39		
SMP Resources reimbursement (for benefits, wages paid)		3		3	6			
Triple M Metal (scrap metal)		1						
Pmts for benefits/life coverage (for Retirees/LTD employees)		7		7				
HST refund							647	

Balance Reporting - Balance Summary Report

Trudi Aikens, ST. MARYS PAPER CORP

Report Creation Date: Oct 08, 2011 01:04:39 PM ET

Report Date: Oct 07, 2011

Account Type	Account	Currency	Balance
BUS DEP	Operating CDN-ROYAL BANK OF CANADA-04362-1022276	CAD	725.93
BUS DEP	Blocked CDN-ROYAL BANK OF CANADA-04362-1022383	CAD	10.54
BUS DEP	ST. MARYS RENEWABLE-ROYAL BANK OF CANADA-04362-1023605	CAD	219,272.89
BUS DEP	SMP FINANCE CORP-ROYAL BANK OF CANADA-04362-1024546	CAD	-30.45
BUS DEP	Operating USD-ROYAL BANK OF CANADA-04362-4002234	USD	-56,313.44
BUS DEP	Blocked USD-ROYAL BANK OF CANADA-04362-4002242	USD	0.00
BUS DEP	ST. MARYS RENEWABLE-ROYAL BANK OF CANADA-04362-4002317	USD	235.85

***** End of report *****

RBC Bank Acct 729 000-562-8 USD 558.90
(used previously for US payroll - not used now)

EXHIBIT "H"

From: MCGRAW, MICHAEL
Sent: Tuesday, October 11, 2011 3:13 PM
To: Paul Guy
Subject: IFP/St. Marys: Financial Information

Paul:

As you are aware, pursuant to Justice Campbell's Endorsement dated October 7, 2011, on October 8, certain required financial information was provided by St. Marys to Ernst & Young in its capacity as financial advisor to IFP. IFP and E&Y have now had an opportunity to review this information and have the following concerns, questions and requests for additional follow-up information:

1. The information provided by St. Marys reveals that its current cash balance as of October 7 is $164,460 (which is a combination of US currency and Canadian currency, assuming an exchange rate of US$1 = CDN$1). As you will recall, the Court was advised on Friday that St. Marys' current cash balance was approximately $484,000. As you will also recall, I expressed concern to the Court about St. Marys' use of cash and the erosion of IFP's security generally and given that you advised me at court that St. Marys had spent approximately $200,000 on Thursday, October 6. As you can appreciate, IFP is deeply concerned now that it has learned that it appears an additional $320,000 may have been spent on or about October 6-7 in the face of IFP's request for information from St. Marys and IFP's motion for interim relief. I left court on Friday with the understanding that the $81,000 in expenses to which St. Marys would be limited until October 17 would result in approximately $400,000 in cash remaining as of October 17. However, it appears now that only $80,000 may remain as of that date (though I understand there is an anticipated GIC receipt of $60,000 which would increase this amount to approximately $140,000). Please provide me with the necessary information to explain/reconcile this discrepancy.

2. Please provide information and/or documentation in response to the following questions regarding St. Marys' receipts and disbursements for the period August 15-October 7, 2011:

Receipts:

- Receipts include an HST refund of $647,000. What is the period of this HST refund of $647,000? What is the expected amount and expected timeline of the next HST refund?
- Receipts include ownership deposits of $159,000. What does this receipt relate to?
- What does the SMP Resources reimbursement receipt relate to?
- What does the benefits/life coverage receipt relate to?
- What does the receipt from Triple M Metal relate to? Provide a list of scrap metal sold to obtain this receipt.

Disbursements:

- Disbursements include travel expenses of $72,000. What is the breakdown of these expenses and who do they relate to?
- Disbursements include a retainer to a mill sale consultant. Who is this retainer paid to?

Please be advised that, as a result of IFP's ongoing concerns with respect to, among other things, St. Marys' use of cash, IFP fully intends to pursue its motion for interim relief returnable Monday, October 17, at which time its concerns, including those set out in paragraph 1 above, will be brought before the Court.

Finally, you advised me and the Court on Friday that St. Marys was in the process of and close to securing financing to satisfy its obligations to IFP. To date, IFP has not heard anything. Please provide us with an update.

Let me know if you wish to discuss.

Mike

Michael McGraw | Blakes
Partner
Tel: 416.863.4247
Fax: 416.863.2653
E-mail: michael.mcgraw@blakes.com

Blake, Cassels & Graydon LLP
199 Bay Street
Suite 2800, Commerce Court West
Toronto, ON M5L 1A9

EXHIBIT "I"

DELUCA, CHRISTINA

From: Paul Guy [PGUY@weirfoulds.com]
Sent: Thursday, October 13, 2011 5:54 PM
To: MCGRAW, MICHAEL
Cc: Paul Cassan
Subject: IFP/St. Marys: Financial Information

Attachments: HumanResouces_stmarys_paper_com_20111013_155116.pdf

HumanResouces_st marys_paper_co...

Mike,

I just left you a lengthy v-mail about this. See below and attached in answer to your client's follow up questions re the financial information that has been provided to date. As I explained in my v-mail, my client is also extending an invitation to you and Alex Morrison to participate in a conference call with the accounting people at St. Marys that know the numbers first hand to answer any additional questions. Let me know if you'd like to set that up.

Regards,

Paul

PAUL D. GUY | Partner | T. 416.947.5045 | pguy@weirfoulds.com

WeirFoulds LLP
The Exchange Tower, 1600 - 130 King Street West, PO Box 480, Toronto, ON
M5X 1J5 Canada | T. 416.365.1110 | F. 416.365.1876 |
www.weirfoulds.com

-----Original Message-----
From: Trudi Aikens
Sent: Thursday, October 13, 2011 12:16 PM
To: 'Paul Cassan'; PGUY@weirfoulds.com
Cc: John Lloyd; Marc Dube; 'SKoivisto@wishartlaw.com'; 'mbrown@weirfoulds.com'
Subject: RE: IFP/St. Marys: Financial Information

I have attached a few sheets hopefully answering the questions below except for the details on securing financing.

The first sheet is what had been submitted on Saturday for the period of Aug 15 - Oct 7th. I believe this answers the first question, but I have added the second sheet which breaks that final week down day to day.

The third sheet goes through the receipts and disbursements that were questioned in question 2.

Thanks,
Trudi

Trudi Aikens | Accounting and Finance Department | St. Marys Paper Corp
| (705) 942-6070 Ext 2204 | Fax (705) 942-4791

From: MCGRAW, MICHAEL [mailto:MICHAEL.MCGRAW@blakes.com]
Sent: Tuesday, October 11, 2011 03:13 PM
To: Paul Guy
Subject: IFP/St. Marys: Financial Information

Paul:

As you are aware, pursuant to Justice Campbell's Endorsement dated October 7, 2011, on October 8, certain required financial information was provided by St. Marys to Ernst & Young in its capacity as financial advisor to IFP. IFP and E&Y have now had an opportunity to review this information and have the following concerns, questions and requests for additional follow-up information:

1. The information provided by St. Marys reveals that its current cash balance as of October 7 is $164,460 (which is a combination of US currency and Canadian currency, assuming an exchange rate of US$1 = CDN$1). As you will recall, the Court was advised on Friday that St.
Marys' current cash balance was approximately $484,000. As you will also recall, I expressed concern to the Court about St. Marys' use of cash and the erosion of IFP's security generally and given that you advised me at court that St. Marys had spent approximately $200,000 on Thursday, October 6. As you can appreciate, IFP is deeply concerned now that it has learned that it appears an additional $320,000 may have been spent on or about October 6-7 in the face of IFP's request for information from St. Marys and IFP's motion for interim relief. I left court on Friday with the understanding that the $81,000 in expenses to which St.
Marys would be limited until October 17 would result in approximately $400,000 in cash remaining as of October 17. However, it appears now that only $80,000 may remain as of that date (though I understand there is an anticipated GIC receipt of $60,000 which would increase this amount to approximately $140,000). Please provide me with the necessary information to explain/reconcile this discrepancy.

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* Receipts include ownership deposits of $159,000. What does this receipt relate to?
* What does the SMP Resources reimbursement receipt relate to?
* What does the benefits/life coverage receipt relate to?
* What does the receipt from Triple M Metal relate to? Provide a list of scrap metal sold to obtain this receipt.

Disbursements:

* Disbursements include travel expenses of $72,000. What is the breakdown of these expenses and who do they relate to?
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Please be advised that, as a result of IFP's ongoing concerns with respect to, among other things, St. Marys' use of cash, IFP fully intends to pursue its motion for interim relief returnable Monday, October 17, at which time its concerns, including those set out in paragraph 1 above, will be brought before the Court.

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Let me know if you wish to discuss.

Mike

Michael McGraw | Blakes
Partner
Tel: 416.863.4247
Fax: 416.863.2653
E-mail: michael.mcgraw@blakes.com

Blake, Cassels & Graydon LLP
199 Bay Street
Suite 2800, Commerce Court West
Toronto, ON M5L 1A9

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St. Marys Paper Corp

Cash Flow August 15 - October 7 2011

	Aug 15-20	Aug 21-27	Aug 28-Sep 3	Sep 4-10	Sep 11-17	Sep 18-24	Sep 25-Oct 1	Oct 2-7	Notes
$000									
Receipts	0	11	50	80	6	39	647	0	
Cash Disbursements									
Payroll	15	33	10		46	7	32	11	Manning of gatehouse, environment and asset monitoring, HR, Acct'g
Source Deductions - payroll (CRA	11	5		8		14		15	Priority payable on payroll
Employer Health Tax	2				2				Priority payable on payroll
WSIB - payroll exp			3				18		Priority payable on payroll
Standard life - pension							12		Priority payable - deducted from wages and company matched
Union dues								1	Priority payable - deducted from wages
Industrial Alliance - benefits/life	89						11	20	Dental/Drug/Life Ins
Sales Technicians pay			13				13		Paper inventory maintenance
Corporate VISA - RBC	2					0	10		travel/meals/emergency exp
Vianet - internet/email				1				1	internet/ email provider
Bell Canada		3		2	2	2	3	10	Main telephone lines
Telus - cell phones									Cell phones/Blackberries
Public Utility Commission				8					Water/sewer
CAFO - property insurance			45					45	insurance on asset - monthly pmts
IESO		52					50		Power/lights
Travel Expenses		15			2		1	54	travel expenses
Mill Sale Consultant								61	retainer
Legal Retainers								100	retainers
RBC - envoked Letter of Credit								56	to be offset by GIC, redeemed w/e Oct 14
RBC - bank fees/FX on transfers	(0)	9	0	2			10		Bank fees
Total Cash Disbursements	119	116	71	20	52	22	159	373	
Net cash inflow (outflow)	(119)	(105)	(21)	60	(46)	17	488	(373)	
Bank - opening book balance	262	143	38	18	78	32	49	537	
Bank - closing book balance	143	38	18	78	32	49	537	164	

St. Marys Paper Corp

Cash Flow Week of October 2 - 7 2011

	Oct 3	Oct 4	Oct 5	Oct 6	Oct 7	
$000						
Receipts						
Cash Disbursements						
Payroll				11		Manning of gatehouse, environment and asset monitoring, HR, Acct'g
Source Deductions - payroll (CRA)			15			Priority payable on payroll
Union dues			1			Priority payable - deducted from wages
Industrial Alliance - benefits/life				20		Dental/Drug/Life Ins
Vianet - internet/email			1			internet/ email provider
Bell Canada	4	6				Main telephone lines
CAFO - property insurance			45			insurance on asset - monthly pmts
Travel Expenses			3	51		travel expenses
Mill Sale Consultant				61		retainer
Legal Retainers				100		retainers
RBC - envoked Letter of Credit					56	to be offset by GIC redeemed
RBC - bank fees/FX on transfers						Bank fees
Total Cash Disbursements	4	6	65	243	56	
Net cash inflow (outflow)	(4)	(6)	(65)	(243)	(56)	
Bank - opening book balance	537	534	528	463	220	
Bank - closing book balance	534	528	463	220	164	plus $60 GIC dep on Tues Oct 11

August 15 - October 7, 2011

Receipts:

- HST refund $647,000 for the period August 1 - 31, 2011
  Next HST refund for the period Sept 1 - 30, 2011 $80,583.63
    - filed on October 11, 2011
    - expected deposit in two weeks

- ownership deposit $159,000
    - late cash infusion by one of the shareholders

- SMP Resources deposits are for items paid through SMPC
  and they reimburse
    - wages for staff used on SMP Resources work
    - benefits for SMP Resources staff as they are included
      in our benefit group

- benefit/life coverage receipt
    - retirees have the option of continuing life insurance coverage
      but at their expense
    - persons on LTD coverage have option to keep benefit coverage
      but at their own expense.

  SMPC pays the premiums to Industrial Alliance and collects
  payment for the above groups (approx 43 people)

- Triple M Metal receipt
  scrap steel bins picked up on July 13, 2011
  contained scrap from operations, normal pick up

Disbursements:

- travel expenses $72,000
  $814.01 CAD - Todd Black - travel exp for trip to DTE Ann Arbour
  $4,783.16 CAD - Brent Belzile - travel exp incurred (June - Aug)
  $10,000 CAD - Kronis Rotsztain Margles - financial retainer (s/b legal)
  $2,733.16 CAD - Brent Belzile - travel exp incurred (Sept)
  $20,437.18 USD - Dennis Bunnell - expenses incurred (May-Sept)
  $10,830.42 USD - Richard O'Brien - expenses incurred (May-Jul)
  $6,736.99 USD - Lloyd Associates - expenses incurred (Aug-Sept)
  $10,621.14 USD - Richard O'Brien - expenses incurred (Jul-Sept)
  $322.20 CAD - First Nation Consultation-Ontario Metis Member - travel and meeting fees
  $251.26 CAD - First Nation Consultation-Ontario Metis Member - travel and meeting fees
  $192.70 CAD - First Nation Consultation-Ontario Metis Member - travel and meeting fees
  $752.56 CAD - First Nation Consultation-Ontario Metis Member - travel and meeting fees

- retainer to mill sale consultant
  paid to Angle Advisors - Investment Banking out of
  Birmingham, Michigan

EXHIBIT "J"

Payments made to SMPC

Vendor Name	Payment Date	Transaction	Transaction Date	Transaction Amount	Balance Home Currency
St. Marys Paper Corporation	12/8/2010	120810-LOAN-IN	12/8/2010	3,000,000.00	Initial loan payment sent to WISHART LAW FIRM LLP
St. Marys Paper Corporation	12/21/2010	122110-PROD-IN	12/21/2010	778,559.10	95/50 production to 12/21
St. Marys Paper Corporation	12/29/2010	PP122910-IN	12/29/2010	979,540.00	95/50 production 12/22-12/29
St. Marys Paper Corporation	1/5/2011	PP010211-IN	1/5/2011	308,727.90	95/50 production 1/1-1/2
St. Marys Paper Corporation	1/5/2011	PP123110-IN	1/5/2011	650,907.68	95/50 production through 12/31
St. Marys Paper Corporation	1/13/2011	011111-PROD-IN	1/11/2011	1,287,688.17	95/50 production 1/3-1/11
St. Marys Paper Corporation	1/18/2011	123110-PROD-IN	12/31/2010	758,707.10	95/50 additional prod after phys inv count-Dec 2010
St. Marys Paper Corporation	1/19/2011	JAN02-PROD-IN	1/2/2011	34,515.30	95/50 additional prod after phys inv count-Jan 2 2011
St. Marys Paper Corporation	1/19/2011	010911-ADJ-DM	1/9/2011	(20,755.15)	Cost and weight correction to 1/9 Prod. inv
St. Marys Paper Corporation	1/18/2011	011811-PROD-IN	1/18/2011	921,476.31	95/50 production 1/12-1/18
St. Marys Paper Corporation	1/25/2011	PP012511PROD-IN	1/25/2011	799,693.02	95/50 production 1/19 to 1/25
St. Marys Paper Corporation	2/3/2011	020211-PROD-IN	2/2/2011	616,108.77	95/50 production 1/26 to 2/2
St. Marys Paper Corporation	2/8/2011	020811A-IN	2/8/2011	1,104,362.01	95/50 production 2/1 to 2/8
St. Marys Paper Corporation	2/8/2011	020811-IN	2/8/2011	71,779.66	95/50 production to 1/31
St. Marys Paper Corporation	2/14/2011	PP021411-IN	2/14/2011	826,620.44	95/50 production 2/9 to 2/14
St. Marys Paper Corporation	2/22/2011	PP022211-IN	2/22/2011	981,875.62	95/50 production 2/15 to 2/22
St. Marys Paper Corporation	2/28/2011	WHSECHARGE-DM	2/28/2011	(10,789.67)	Deduction for Charges paid on behalf of St Marys
St. Marys Paper Corporation	2/28/2011	PP0228111-IN	2/28/2011	1,196,504.13	95/50 production 2/23 to 2/27
St. Marys Paper Corporation	3/4/2011	022811-PROD-IN	2/28/2011	40,659.53	95/50 production 2/28
St. Marys Paper Corporation	3/7/2011	022711 correct-IN	3/7/2011	(36,570.95)	correction to 2/28 prod invoice
St. Marys Paper Corporation	3/7/2011	PP030811-IN	3/7/2011	525,206.41	95/50 production 3/1- 3/6
St. Marys Paper Corporation	3/14/2011	PP031511PROD-IN	3/14/2011	707,231.72	95/50 production 3/8- 3/13
St. Marys Paper Corporation	3/21/2011	PP032111PROD-IN	3/21/2011	734,131.24	95/50 production 3/14- 3/21
St. Marys Paper Corporation	3/29/2011	PP032811-IN	3/29/2011	756,377.36	95/50 production 3/22- 3/28
St. Marys Paper Corporation	3/31/2011	PP033111-IN	3/31/2011	208,000.00	95/50 production 3/22- 3/28 -balance
St. Marys Paper Corporation	4/4/2011	PP040411PROD-IN	4/4/2011	460,192.25	95/50 production 3/28- 4/03
				14,680,747.95	
St. Marys Paper Corporation	3/10/2011	PP031011-IN	3/10/2011	154,720.95	Additional 20% pmt on inv orig purchased at 50%
				154,720.95	
St. Marys Paper Corporation	2/24/2011	PP1231RECON-IN	2/24/2011	153,331.77	12/31 reconciliaton
St. Marys Paper Corporation	3/16/2011	FEB-11RECON-IN	3/16/2011	192,954.81	Feb 2011 reconciliation
St. Marys Paper Corporation	4/15/2011	PPMAR11RECON-IN	4/15/2011	17,390.59	March 2011 reconciliation
St. Marys Paper Corporation	4/15/2011	PP040211-IN	4/15/2011	70,538.30	April 2011 reconciliation - early payment
St. Marys Paper Corporation	4/15/2011	PP041511-IN	4/15/2011	90,370.30	April 2011 reconciliation - early payment
St. Marys Paper Corporation	4/19/2011	PP041811-IN	4/19/2011	82,538.09	April 2011 reconciliation - early payment
				607,123.86	
				18,442,592.76	

Paid an additional 20% on unsold inventory for a total of 70% advance payment. A portion of this inventory is still unsold.

Advanced additional payment on material sold in April (instead of waiting until the reconciliation on May 15).

EXHIBIT "K"

Timeline of payments withheld from SMPC and offset against payments due to IFP

	Additional Payments Withheld from SMPC (Reconciliations)	Loan & Interest due to IFP	Pulp Receivables Due to IFP (incl HST)	Net balance due IFP
Apr-11	188,517.00	(122,125.00)	(464,621.84)	(398,229.84)
May-11	278,431.10	(92,458.83)	(1,620,508.86)	(1,832,766.43)
Jun-11	298,656.82	(93,760.58)	(1,459,760.30)	(3,087,630.49)
Jul-11	77,759.59	(93,058.27)	(773,127.07)	(3,876,056.24)
Aug-11	101,443.00	(94,386.07)	-	(3,868,999.31)
	944,807.51	(495,788.75)	(4,318,018.07)	(3,868,999.31)

EXHIBIT "L"

DELUCA, CHRISTINA

From: Thompson, Christopher P. (JUS) [Christopher.P.Thompson@ontario.ca]

Sent: Tuesday, October 11, 2011 4:10 PM

To: PGUY@weirfoulds.com; MCGRAW, MICHAEL; Paul Cassan

Subject: St. Marys Paper Corp.: Power Purchase Agreement

Dear Counsel,

On Friday, one of the issues raised was whether the Power Purchase Agreement between St. Marys Renewable Energy LP and the Ontario Power Authority would be breached by a receivership order. Please note that I do not act for and do not speak for the Ontario Power Authority. My client is Her Majesty the Queen in right of Ontario as represented by the Ministry of Northern Development, Mines and Forestry. Should you have any questions regarding the Power Purchase Agreement, please direct them to the Ontario Power Authority.

Regards,

Chris

Christopher P. Thompson
Counsel, Crown Law Office-Civil
Ministry of the Attorney General
720 Bay Street, 8th Floor, Toronto, Ontario M7A 2S9
Tel.: (416) 314-2080 Fax: (416) 326-4181
Christopher.P.Thompson@ontario.ca

EXHIBIT "M"

From: Da Silva, Orlando (JUS) [mailto:Orlando.DaSilva@ontario.ca]
Sent: Friday, October 14, 2011 12:41 AM
To: FLYNN, MARC
Cc: MCGRAW, MICHAEL
Subject: Re: St Marys

Marc,

There is no committment. However, there was a non-binding offer for a grant of $25M and a loan guarantee of $25M made in February 2009. The non-binding offer was conditional on a number of things but the conditions have not been met. Conditions included, inter alia, no adverse change in financial condition, obtaining project financing, and the conclusion of a definitive agreement.

Please let me know if you have any other questions.

Regards,

Orlando

From: FLYNN, MARC <MARC.FLYNN@blakes.com>
To: Da Silva, Orlando (JUS)
Cc: MCGRAW, MICHAEL <MICHAEL.MCGRAW@blakes.com>
Sent: Fri Oct 14 00:28:09 2011
Subject: RE: St Marys

Orlando, further to our conversation today where you advised that, contrary to the affidavit of Gordon Acton, no prosperity fund agreement has been entered into with St. Marys or any of its affiliates (i.e., St. Marys Renewable Energy Corp. or St. Marys Renewable Energy LP) in connection with proposed Co-Generation Facility, please also confirm that no commitment has been made by the Province (pursuant to a written agreement or otherwise) to provide a $25 million grant to St. Marys (see para. 47 of the Acton Affidavit). When we spoke, I assumed no grant had been paid as the Acton Affidavit claims it is payable pursuant to the prosperity fund agreement, and in light of the Province not taking a position on the matter, but I would like to be perfectly clear on the point.

Apologies for the urgency, but if you could reply before 10am Friday it would be appreciated as we are facing a noon deadline.

Marc

EXHIBIT "N"

<u>CONFIDENTIAL EXHIBIT "N"</u>
TO THE THIRD SUPPLEMENTAL AFFIDAVIT OF DANIEL J. MOORE, SWORN OCTOBER 14, 2011

<u>TO BE SEALED BY THE COURT</u>

THE DOCUMENTS IN THIS EXHIBIT ARE SUBJECT TO A SEALING ORDER REQUEST AND ARE TO BE KEPT STRICTLY CONFIDENTIAL AND ARE NOT TO BE DISCLOSED TO ANYONE EXCEPT THE JUDGE HEARING THE MOTION.