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

**ONTARIO**
**SUPERIOR COURT OF JUSTICE**
**COMMERCIAL LIST**

BETWEEN:

**INTERNATIONAL FOREST PRODUCTS LLC**
**(formerly known as 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**

**THIRD REPORT OF THE RECEIVER OF ST. MARYS PAPER CORP.**
**DATED MAY 3, 2012**

## INTRODUCTION

1. Pursuant to the Order of the Honourable Mr. Justice Campbell dated December 29, 2011, effective December 30, 2011, Ernst & Young Inc. ("**EYI**") was appointed as the receiver and receiver and manager (the "**Receiver**") of all of the assets, undertakings and properties of St. Marys Paper Corp. ("**St. Marys**") acquired for, or used in relation to St. Marys' business, including all proceeds (the "**Property**") pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**") and section 101 of the *Courts of Justice Act*, R.S.O 1990 c C.43, as amended (the "**Appointment Order**"). A copy of the Appointment Order is attached as Appendix "A".

2. The Receiver has marketed and sold certain of the Property of St. Marys in accordance with the sales process protocol approved by this Court pursuant to the Order of the Honourable Mr. Justice Campbell dated January 18, 2012.

3. The sale transaction (the "**Transaction**") contemplated in the agreement of purchase and sale (the "**Sale Agreement**") between St. Marys, by the Receiver, and 2319839 Ontario Inc. (the "**Purchaser**") dated March 15, 2012, has closed, and the Purchased Assets described in the Sale Agreement have vested in the Purchaser as provided by the Order of the Honourable Mr. Justice Campbell dated March 26, 2012 (the "**Sale Approval and Vesting Order**").

4. The Purchaser has delivered and paid to the Receiver the purchase price provided under the Sale Agreement (the "**Purchase Price**").

**PURPOSE**

5. The purpose of this Third Report of the Receiver is to report to this Court with respect to:

   a) a summary of the activities of the Receiver to date;

   b) the repayment of the funds borrowed by the Receiver through Receiver's Certificates;

   c) a summary of the statement of receipts and disbursements as of April 24, 2012;

   d) the review of the security of International Forest Products LLC ("**IFP**") which is owed approximately US$7,175,678;

   e) a summary of certain claims received by the Receiver asserting potential priority over the security of IFP; and

   f) the Receiver's motion for an Order:

      a. authorizing and directing the Receiver to pay $10,496.53 to Canada Revenue Agency ("**CRA**") for unremitted source deductions related to the pre-receivership period;

b. authorizing and directing the Receiver to pay $8,862.36 to Standard Life Assurance Company ("**Standard Life**") for unremitted pension payments related to the pre-receivership period;

c. authorizing and directing the Receiver to pay $23,384.16 to Cafo Inc. ("**Cafo**") (the "**Cafo Proceeds**") which is the amount of refunded unearned insurance premiums received in respect of certain insurance policies which the Receiver terminated (the "**Unearned Premiums**");

d. authorizing and directing the Receiver to distribute the amount of $4,220,000 to IFP from the cash in the Receiver's possession, and declaring that the distribution of $4,220,000 is to be applied on account of the indebtedness owing by St. Marys to IFP;

e. approving the settlement agreement between the Receiver and Caterpillar Financial Services Limited ("**Caterpillar**") dated May 2, 2012 and appended as Appendix "B" to this Third Report (the "**Caterpillar Settlement Agreement**"), and authorizing and directing to distribute the settlement proceeds (in the amount of $50,000.00) to IFP once received from Caterpillar pursuant to the Caterpillar Settlement Agreement;

f. amending the Appointment Order to include SMP Resources Inc. ("**SMPR**"), a related entity to St. Marys in which St. Marys owns 100% of the shares, and authorizing the Receiver to conduct a process to market and sell the assets of SMPR; and

g. approving this Third Report, the conduct and activities of the Receiver as described herein, and approving the Receiver's statement of receipts and disbursements dated April 24, 2012.

**TERMS OF REFERENCE**

6. In preparing this Third Report, the Receiver has been provided with, and, in making the comments herein, relied upon, unaudited financial information, St. Marys' books and records, financial information prepared by St. Marys, and discussions with management of St. Marys. The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Receiver expresses no opinion or other form of assurance in respect of such information contained in this Third Report.

7. Unless otherwise stated all monetary amounts contained herein are expressed in Canadian Dollars.

**BACKGROUND**

8. Copies of the Receiver's previous reports and other documents related to the receivership proceedings are available on the website maintained by the Receiver for these proceedings at www.ey.com/ca/smp.

9. St. Marys is an Ontario corporation with its head office located in Sault Ste. Marie, Ontario. Prior to March 2011, St. Marys operated a groundwood pulp and super calendar specialty paper mill (the "**Mill**") producing paper grades used mainly by magazine publishers and retailing companies for high quality advertising inserts, flyers and catalogues.

10. As discussed in the Second Report of the Receiver dated March 20, 2012 (the "**Second Report**"), St. Marys was forced to shut down the Mill in March, 2011. A copy of the Second Report (without appendices) is attached as Appendix "C".

11. The shutdown resulted in, among other things, a liquidity crisis which led to the appointment of the Receiver.

12. The Receiver sold the majority of the Property of St. Marys to the Purchaser as provided under the Sale Agreement, including the Mill, the associated real property and the Mill

equipment. The Purchaser paid the Purchase Price under the Sale Agreement. The Transaction, approved pursuant to the Sale Approval and Vesting Order, closed with effect at April 4, 2012 following the issuance by the Receiver of the Receiver's Certificate on April 10, 2012, filed. An executed copy of the Receiver's Certificate issued is attached as Appendix "D".

13. Further details with respect to the Transaction are described in the Second Report.

14. Further, pursuant to the Sale Approval and Vesting Order, all remaining employees of St. Marys were deemed to be terminated effective as of 11:59 p.m. on April 3, 2012.

15. After the closing of the Transaction, the significant remaining assets of St. Marys include:

a) income and property tax refunds;

b) certain wood located in the yard of St. Marys (the "**Mill Yard Wood**"), which was purchased by St. Marys when it was operating and is subject to a lien in favour of the Ontario Ministry of Natural Resources (the "**MNR**");

c) the capital stock of the Company including the shares of SMPR owned by St. Marys; and

d) certain other assets, including any claims against Caterpillar and collateral with respect to cancelled letters of credit.

## SUMMARY OF THE ACTIVITIES OF THE RECEIVER

16. Since its appointment, among other things, the Receiver obtained insurance coverage for the Property, arranged for security of the Property, froze St. Marys' bank accounts and opened a Receiver's bank account. The activities of the Receiver since its appointment are more fully described in the First Report of the Receiver dated January 13, 2012 (the "**First Report**") and the Second Report. A copy of the First Report (without appendices) is attached as Appendix "E".

17. Since the Second Report, the Receiver took the following steps in conjunction with its mandate:

a) worked with the Purchaser to complete the items required to close the Transaction;

b) continued with the winterization activities to winterize the Mill in a cold idle condition until the completion of the Transaction;

c) continued the security arrangements formerly in place by St. Marys with respect to the security of the Mill until the completion of the Transaction;

d) pursuant to the Sale Approval and Vesting Order, sent termination letters, on behalf of St. Marys, to all known employees based on St. Marys' records;

e) continued to review property claims filed by certain suppliers and, in consultation with IFP, continued to return property claimed by such suppliers with valid claims;

f) retained St. Marys' property tax consultant to appeal certain property tax assessments related to the period prior to the closing of the Transaction;

g) continued to deal with creditor inquiries relating to St. Marys' non-payment of liabilities incurred prior to the Appointment Order;

h) continued to work with the MNR to sell the Mill Yard Wood;

i) as described below, repaid, with interest, the amount borrowed from IFP through Receiver's Certificates as provided for in the Appointment Order; and

j) as required by an order issued by the Canadian Nuclear Safety Commission ("**CNSC**"), assisted the Purchaser in coordinating the removal and storage of certain nuclear substances and devices from the Mill by a CNSC licensed third party, which the CNSC confirmed by letter dated April 3, 2012 as being compliant with all of the actions required by the order.

**REPAYMENT OF THE FUNDS BORROWED BY THE RECEIVER**

18. As described in the First Report, the Receiver issued its first Receiver's Certificate in the amount of $470,000 to fund these Receivership proceedings until the end of January 2012, at an annual interest rate of 18%. Further, as described in the Second Report, the Receiver issued its second and third Receiver's Certificate in the amounts of $325,000 and $250,000, respectively, to further fund these Receivership proceedings. The three Receiver's Certificates total $1,045,000.

19. After the receipt of proceeds from the Transaction, on April 20, 2012, the Receiver repaid the Receiver's Certificates totalling $1,045,000 plus interest of approximately $38,672.95 to IFP.

**STATEMENT OF RECEIPTS AND DISBURSEMENTS**

20. Attached as Appendix "F" is the Receiver's statement of receipts and disbursements (the "**R&D Statement**") for the period from December 30, 2011 to April 24, 2012, which reflects remaining funds of $5,185,116.17 as of April 24, 2012. The R&D Statement details individual receipt and disbursement line items. Further, the Receiver holds US$40,711.67 in a U.S. currency account.

21. As of April 24, 2012, the Receiver also holds the Cafo Proceeds of $23,384.16 in a separate escrow account earmarked for the unearned premiums. As discussed in the Second Report, with the agreement of IFP, the Receiver agreed with Cafo that the

Receiver would terminate any unnecessary insurance policies and the Unearned Premiums would be held by the Receiver pending an agreement between IFP and Cafo or a determination by this Court with respect to priority to the Unearned Premiums.

22. The Receiver has since been advised by IFP that it does not dispute Cafo's priority to the Unearned Premiums. Accordingly, the Receiver is seeking the approval of this Court to pay the Cafo Proceeds to Cafo.

**REVIEW OF IFP'S SECURITY**

23. As discussed in the Affidavit of Daniel J. Moore sworn May 2, 2012 (the "**Moore Affidavit**"), as at April 30, 2012, St. Marys is indebted to IFP in the amount of approximately US$7,175,678, including interest.

24. The Receiver has received a legal opinion from its independent counsel, Cassels Brock & Blackwell LLP, that the security granted by St. Marys to IFP creates valid and perfected security interests in the real and personal property of St. Marys, subject to certain usual qualifications and assumptions in opinions of this nature.

**CLAIMS RECEIVED BY THE RECEIVER**

25. The following is an overview of certain claims received by the Receiver, which assert potential priority over the secured position of IFP:

Aecom Claims

26. Aecom Canada Ltd. ("**Aecom**") registered a security interest against real property owned by St. Marys prior to the closing of the Transaction by Instrument No. AL94715, being a notice of a construction lien perfected by way of commencement of an action in the Superior Court of Justice, pursuant to the *Construction Lien Act* (Ontario), as Court File No. 25697/11 (the "**Action**"). The Sale Approval and Vesting Order preserves the rights of Aecom, if any, arising from its registration and perfection of the construction lien in and to the proceeds of sale held by the Receiver.

27. Aecom provided a copy of the Statement of Claim (the "**Aecom Statement of Claim**") in relation to the Action to the Receiver on April 20, 2012. In the Action, Aecom claims from St. Marys payment of $130,149 plus costs, arising from design and other services carried out by Aecom pursuant to a contract dated February 1, 2011 between Aecom and St. Marys Renewable Energy Corp. with respect to the planned bio-mass facility (the "**Aecom Claim**"). The Action claims that such services were delivered by Aecom between February 1, 2011 and September 27, 2011. A copy of the Aecom Statement of Claim is attached hereto at Appendix "G".

28. Aecom registered its security interest in St. Mary's real property on November 8, 2011, being after the registration of IFP's mortgage on March 3, 2011. The Receiver has requested that Aecom provide it with further information, including copies of the applicable contracts and invoices and evidence of when the services were performed, in order for the Receiver to assess the quantum, validity and potential priority of Aecom's claims. As of the date of this Third Report, Aecom has provided certain of the requested information to the Receiver.

29. In calculating the amount of the interim distribution to IFP proposed by the Receiver as set out further herein, the Receiver has reserved the amount of $130,149 with respect to the Aecom Claim (being the dollar amount of Aecom's lien claim, exclusive of costs).

PS Johnson Claims

30. P.S. Johnson Valuation Consultants Ltd. and P.S. Johnson Legal Services Professional Corporation (together, "**PS Johnson**") filed a Statement of Claim (the "**PS Johnson Statement of Claim**") against St. Marys on June 13, 2011. In the PS Johnson Statement of Claim, PS Johnson alleges that it provided realty tax consulting services to St. Marys and claims for unpaid fees of $69,202.95 (the "**PS Johnson Claim**"). The Receiver understands that as part of settlement negotiations with PS Johnson, St. Marys provided a Direction & Authorization (the "**Direction and Authorization**") to the Corporation of the City of Sault Ste. Marie (the "**City**") and to Wishart Law Firm LLP ("**Wishart**"), dated August 4, 2011 in which St. Marys irrevocably authorized and directed that the sum

of $69,202.95 be paid to the solicitors of PS Johnson from any anticipated municipal tax refund owing to St. Marys (the "**Refund**").

31. The Receiver understands that, prior to the payment of the Refund by the City to St. Marys, the Direction & Authorization was purportedly revoked by St. Marys and that the City paid the Refund to St. Marys and Wishart. The Receiver understands that the portion of the Refund paid to Wishart was in satisfaction of a solicitors lien registered with the City. A copy of the PS Johnson Statement of Claim and the Direction & Authorization are attached hereto at Appendix "H".

32. PS Johnson has advised the Receiver that it asserts a trust or constructive trust in and to such funds as received by St. Marys.

33. Particularly given the factual and legal complexities raised by potential constructive trust claims, based on the information and documents provided by PS Johnson, the Receiver has not been able to conclude that the requisite elements of an express or constructive trust have been met. The Receiver also notes that, in addition to any determination of the legal merits of a constructive trust claim, the Receiver will need to conduct a forensic accounting to determine if any of the funds remaining in St. Marys' accounts can be traced to the Refund.

34. Based on the information and documents provided to date by PS Johnson, the Receiver is not proposing to hold back any reserve with respect to the PS Johnson Claim. For certainty, the Receiver's calculation of the proposed distribution to IFP as set out further herein does not include a hold back in respect of the PS Johnson Claim.

Alleged Claim against IFP by former management and counsel

35. The Receiver has been advised by counsel to Dennis Bunnell, John Lloyd, Dick O'Brian and Wishart (collectively, the "**IFP Claimants**") that the IFP Claimants intend to commence a legal proceeding against IFP in relation to amounts which the IFP Claimants allege should have been paid prior to these receivership proceedings. Dennis Bunnell, John Lloyd and Dick O'Brien are former management and former consultants of St.

 

Marys and Wishart is former counsel to St. Marys. The Receiver understands that certain partners of Wishart (including Gordon Acton) are indirect shareholders and the former principals of St. Marys.

36. By letters dated April 3, 2012 and April 4, 2012, counsel to the IFP Claimants requested that the Receiver hold back the amount of $250,000 from any distribution to IFP in anticipation of the IFP Claimants' claims against IFP. Attached hereto as Appendix "I" is a copy of the April 3, 2012 and April 4, 2012 correspondence from counsel to the IFP Claimants, along with the responses from counsel to the Receiver.

37. The correspondence from counsel to the IFP Claimants of April 3, 2012 and April 4, 2012 indicate that court materials were in the process of being issued and would be served shortly thereafter. However, the Receiver has not received any court materials nor any other information with respect to the IFP Claimants' alleged claims, and as such the Receiver has not been able to formulate any view with respect to the positions and claims of the IFP Claimants.

38. Given that no documentation providing particulars or the legal merits of the claim of the IFP Claimants has been provided to date, the Receiver is not proposing to hold back any reserve with respect to the claim of the IFP Claimants. For certainty, the Receiver's calculation of the proposed distribution to IFP as set out further herein does not include a hold back in respect of the claim of the IFP Claimants

**PAYMENTS TO CRA AND STANDARD LIFE**

39. Based on St. Marys' books and record as of the date of the Appointment Order, St. Marys owed $10,496.53 to CRA (the "**CRA Amount**") for unpaid source deductions related to the period prior to the date of the Appointment Order. Further, based on St. Marys' books and records, St. Marys owed $8,862.36 to Standard Life (the "**Standard Life Amount**") for unpaid defined contribution pension deductions related to the period prior to the date of the Appointment Order.

40. The Receiver, with the assistance of its counsel, has reviewed the CRA Amount and the

Standard Life Amount and determined that each ranks in priority to IFP's security. These amounts are a deemed trust and a priority charge under section 81.6 of the BIA, respectively.

41. Accordingly, the Receiver is seeking the authorization and direction of this Court to pay the CRA Amount and the Standard Life Amount from the funds held by the Receiver. IFP advises the Receiver that it does not oppose such payments.

**FIRST INTERIM DISTRIBUTION TO IFP**

42. As of April 24, 2012, the Receiver holds CDN$5,185,116.17 and US$40,711.67, primarily from the Transaction proceeds, which are not subject to escrow. The Receiver has prepared an analysis to estimate the surplus cash available for distribution to IFP, subject to maintaining certain reserves required to pay accrued but unpaid estate obligations, including certain trade vendor obligations, as well as establishing a reserve to fund the continued costs of these receivership proceedings and the Aecom Claim discussed above.

43. The Receiver notes that in respect of the period prior to the Appointment Order, St. Marys owes approximately $576,404 in vacation pay to its former employees and $1,416,685.84 of unremitted Harmonized Sales Tax ("**HST**").

44. The Receiver understands that IFP has commenced a bankruptcy application with respect to St. Marys, which it will seek to be granted by this Court on May 8, 2012 prior to the hearing of this motion. If there is a bankruptcy of St. Marys, the amounts owing for HST and vacation pay will rank subordinate to the security of IFP and will be available for distribution to IFP.

45. Based on its analysis, the Receiver recommends that this Court approve a distribution in the amount of $4,220,000 to IFP. After the distribution of $4,220,000 to IFP, as of April 24, 2012, the Receiver will continue to hold approximately $40,711.67 in U.S. currency and approximately $965,116.17 in Canadian currency.

46. The following table provides a summary of the cash held by the Receiver and the reserves being held back from the distribution:

| | | As at April 24, 2012 |
|---|---|---|
| **CASH BALANCE** | | |
| Cash Balance (CDN) | $ | 5,185,116 |
| Cash Balance (US) | | 40,712 |
| Funds in Escrow with the Receiver: | | |
| CAFO Insurance Escrow | | 23,384 |
| **Total Cash Balance** | $ | 5,249,212 |
| **Less: Holdbacks/Priority Payments** | | |
| **Funds in Escrow** | | |
| CAFO Insurance Escrow | | (23,384) |
| **Estimate of Potential Priority Payment Accruals** | | |
| Unremitted pension amounts (pre-receivership) | | (8,862) |
| Unremitted source deductions (pre-receivership) | | (10,497) |
| **Total Escrow and Potential Priority Payments** | | **(42,743)** |
| **Estimate of Potential Post Closing Expenses** | | **(551,000)** |
| **Potential Reserves for Claims** | | |
| Reserve for AECOM Claim | | (130,149) |
| Other Reserves | | (300,000) |
| **Total Potential Post Closing Reserves** | | **(430,149)** |
| **Funds Available for an Interim Distribution** | **$** | **4,225,320** |

## SETTLEMENT WITH CATERPILLAR

47. The Receiver understands that Caterpillar repossessed a 2006-980H wheel loader with serial number CAT0980HCJMS01056 leased to St. Marys (the "**Caterpillar Equipment**"), prior to the Receiver's appointment, due to outstanding lease payments owed by St. Marys to Caterpillar. The Caterpillar Equipment is currently in the possession of Caterpillar.

48. The Receiver understands that prior to its appointment, IFP and Caterpillar disagreed with respect to the priority of Caterpillar's security interest in the Caterpillar Equipment.

IFP and Caterpillar were in negotiations to settle such priority dispute when the Receiver was appointed.

49. The Receiver continued negotiations with Caterpillar in respect of the estate's rights to the Caterpillar Equipment after its appointment.

50. The Receiver and Caterpillar have agreed to the terms of a settlement pursuant to which Caterpillar will pay the Receiver $50,000.00 in full satisfaction of any claims of the Receiver against Caterpillar and the parties will exchange a mutual release of all claims against each other. A copy of the Caterpillar Settlement Agreement is attached as Appendix "B".

51. The Receiver recommends and requests that this Court approve the Caterpillar Settlement and authorize the Receiver to distribute the settlement proceeds of $50,000.00 to IFP upon receipt from Caterpillar pursuant to the Caterpillar Settlement Agreement without further order of the Court.

**SMP RESOURCES INC.**

52. St. Marys' capital stock was not included in the Transaction. Accordingly, St. Marys continues to own 100% of the shares of SMPR, a related entity to St. Marys. SMPR's primary business is harvesting timber for St. Marys and other third parties. The Receiver understands that SMPR operated for the first few months of 2012 but is currently not operating due to a lack of any corporate governance of SMPR. SMPR has two directors who are former employees of St. Marys.

53. The Receiver understands that SMPR's assets include a warehouse building located in Sault Ste. Marie in Ontario, a 60% holding in Ontario Wilderness Vacations Limited ("**OWVL**") and certain timber agreements. Further, SMPR is entitled to certain HST refunds which are on hold by CRA until SMPR files its corporate income tax returns for the years 2010 and 2011 which have not been filed because SMRP has no management to sign these tax returns.

54. OWVL is owned 60% by SMPR and the Receiver understands that the remaining 40% is owned by Mr. Robert Dale and Great Northern Freight Forwarding Limited. The assets of OWVL primarily include real estate assets including an island and certain camps in northern Ontario. OWVL also owns 100% of the shares of Airdale Flying Services Limited. The Receiver understands that the Royal Bank of Canada ("**RBC**") has issued a statement of claim and a notice of intention to enforce against the assets of OWVL to recover certain secured amounts owed to RBC by OWVL. In addition, RBC has called upon a guarantee that was provided by SMPR in favour of OWVL.

55. In order to preserve St. Marys' interest in the shares of SMPR, the Receiver is seeking an order of this court to expand the Appointment Order to include SMPR. Further, the Receiver is seeking the approval of this Court to market and sell the assets of SMPR.

**RECOMMENDATIONS**

56. The Receiver respectfully recommends that this Court grant the relief requested in paragraph 5 of this Third Report and substantially in the form of the draft Order attached at Schedule "A" to the Receiver's Notice of Motion.

All of which is respectfully submitted this 3rd day of May, 2012.

**ERNST & YOUNG INC.**
**in its capacity as Court Appointed Receiver and**
**Receiver and Manager of St. Mary's Paper Corp.**

Per:

Alex Morrison
Senior Vice President

Simone Carvalho
Vice President

# TAB A

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

***ONTARIO***

**SUPERIOR COURT OF JUSTICE**

**COMMERCIAL LIST**

| | | |
|---|---|---|
| THE HONOURABLE MR. | ) | THURSDAY, THE 29th DAY |
| | ) | |
| JUSTICE C. CAMPBELL | ) | OF DECEMBER, 2011 |

**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**

# ORDER

THIS APPLICATION made by the Applicant for an Order pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "BIA") and section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended (the "CJA") appointing Ernst & Young Inc. as receiver and receiver and manager (in such capacities, the "Receiver") without security, of all of the assets, undertakings and properties of St. Marys Paper Corp. (the "Debtor") acquired for, or used in relation to a business carried on by the Debtor, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavits of Daniel J. Moore sworn August 31, 2011; September 27, 2011; October 6, 2011; and October 14, 2011 and the Exhibits thereto, all filed, and on hearing the submissions of counsel for the Applicant and the Debtor, no other parties appearing although duly served as appears from the affidavits of service filed with the Court, and on reading the consent of the Debtor dated October 24, 2011, and on reading the consent of Ernst & Young Inc. to act as the Receiver,

**SERVICE**

1. THIS COURT ORDERS that the time for service of the Notice of Application and the Application is hereby abridged and validated so that this application is properly returnable today and hereby dispenses with further service thereof.

**APPOINTMENT**

2. THIS COURT ORDERS that pursuant to section 243(1) of the BIA and section 101 of the CJA, Ernst & Young Inc. is hereby appointed Receiver, without security, of all of the assets, undertakings and properties of the Debtor acquired for, or used in relation to a business carried on by the Debtor, including all proceeds thereof (the "Property").

**RECEIVER'S POWERS**

3. THIS COURT ORDERS that the Receiver is hereby empowered and authorized, but not obligated, to act at once in respect of the Property and, without in any way limiting the generality of the foregoing, the Receiver is hereby expressly empowered and authorized to do any of the following where the Receiver considers it necessary or desirable:

(a) to take possession of and exercise control over the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;

(b) to receive, preserve, and protect the Property, or any part or parts thereof, including, but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;

(c) to manage, operate, and carry on the business of the Debtor, including the powers to enter into any agreements, incur any obligations in the ordinary course of business, cease to carry on all or any part of the business, or cease to perform any contracts of the Debtor;

(d) to engage brokers, consultants, appraisers, agents (including listing agents for commercial real property), experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the Receiver's powers and duties, including without limitation those conferred by this Order;

(e) to purchase or lease such machinery, equipment, inventories, supplies, premises or other assets to continue the business of the Debtor or any part or parts thereof;

(f) to receive and collect all monies and accounts now owed or hereafter owing to the Debtor and to exercise all remedies of the Debtor in collecting such monies, including, without limitation, to enforce any security held by the Debtor;

(g) to settle, extend or compromise any indebtedness owing to the Debtor;

(h) to execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Receiver's name or in the name and on behalf of the Debtor, for any purpose pursuant to this Order;

(i) to undertake environmental or workers' health and safety assessments of the Property and operations of the Debtor;

(j) to initiate, prosecute and continue the prosecution of any and all proceedings and to defend all proceedings now pending or hereafter instituted with respect to the Debtor, the Property or the Receiver, and to settle or compromise any such proceedings. The authority hereby conveyed shall extend to such appeals or applications for judicial review in respect of any order or judgment pronounced in any such proceeding;

(k) to market any or all of the Property, including advertising and soliciting offers in respect of the Property or any part or parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate, including the listing of the Property with such broker or listing agent as the Receiver may deem appropriate and at such listing price as the Receiver may deem appropriate;

(l) to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business,

(i) without the approval of this Court in respect of any transaction not exceeding $250,000, provided that the aggregate consideration for all such transactions does not exceed $1,000,000; and

(ii) with the approval of this Court in respect of any transaction in which the purchase price or the aggregate purchase price exceeds the applicable amount set out in the preceding clause;

and in each such case notice under subsection 63(4) of the Ontario *Personal Property Security Act*, or section 31 of the Ontario *Mortgages Act*, as the case may be, shall not be required, and in each case the Ontario *Bulk Sales Act* shall not apply.

(m) to apply for any vesting order or other orders necessary to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property;

(n) to report to, meet with and discuss with such affected Persons (as defined below) as the Receiver deems appropriate on all matters relating to the Property and the receivership, and to share information, subject to such terms as to confidentiality as the Receiver deems advisable;

(o) to register a copy of this Order and any other Orders in respect of the Property against title to any of the Property;

(p) to apply for any permits, licences, approvals or permissions as may be required by any governmental authority and any renewals thereof for and on behalf of and, if thought desirable by the Receiver, in the name of the Debtor;

(q) to enter into agreements with any trustee in bankruptcy appointed in respect of the Debtor, including, without limiting the generality of the foregoing, the ability to enter into occupation agreements for any property owned or leased by the Debtor;

(r) to exercise any shareholder, partnership, joint venture or other rights which the Debtor may have; and

(s) to take any steps reasonably incidental to the exercise of these powers or the performance of any statutory obligations.

and in each case where the Receiver takes any such actions or steps, it shall be exclusively authorized and empowered to do so, to the exclusion of all other Persons (as defined below), including the Debtor, and without interference from any other Person.

**DUTY TO PROVIDE ACCESS AND CO-OPERATION TO THE RECEIVER**

4. THIS COURT ORDERS that (i) the Debtor, (ii) all of its current and former directors, officers, employees, agents, accountants, legal counsel and shareholders, and all other persons acting on its instructions or behalf, and (iii) all other individuals, firms, corporations, governmental bodies or agencies, or other entities having notice of this Order (all of the foregoing, collectively, being "Persons" and each being a "Person") shall forthwith advise the Receiver of the existence of any Property in such Person's possession or control, shall grant immediate and continued access to the Property to the Receiver, and shall deliver all such Property to the Receiver upon the Receiver's request.

5. THIS COURT ORDERS that all Persons shall forthwith advise the Receiver of the existence of any books, documents, securities, contracts, orders, corporate and accounting records, and any other papers, records and information of any kind related to the business or

affairs of the Debtor, and any computer programs, computer tapes, computer disks, or other data storage media containing any such information (the foregoing, collectively, the "Records") in that Person's possession or control, and shall provide to the Receiver or permit the Receiver to make, retain and take away copies thereof and grant to the Receiver unfettered access to and use of accounting, computer, software and physical facilities relating thereto, provided however that nothing in this paragraph 5 or in paragraph 6 of this Order shall require the delivery of Records, or the granting of access to Records, which may not be disclosed or provided to the Receiver due to the privilege attaching to solicitor-client communication or due to statutory provisions prohibiting such disclosure.

6. THIS COURT ORDERS that if any Records are stored or otherwise contained on a computer or other electronic system of information storage, whether by independent service provider or otherwise, all Persons in possession or control of such Records shall forthwith give unfettered access to the Receiver for the purpose of allowing the Receiver to recover and fully copy all of the information contained therein whether by way of printing the information onto paper or making copies of computer disks or such other manner of retrieving and copying the information as the Receiver in its discretion deems expedient, and shall not alter, erase or destroy any Records without the prior written consent of the Receiver. Further, for the purposes of this paragraph, all Persons shall provide the Receiver with all such assistance in gaining immediate access to the information in the Records as the Receiver may in its discretion require including providing the Receiver with instructions on the use of any computer or other system and providing the Receiver with any and all access codes, account names and account numbers that may be required to gain access to the information.

## NO PROCEEDINGS AGAINST THE RECEIVER

7. THIS COURT ORDERS that no proceeding or enforcement process in any court or tribunal (each, a "Proceeding"), shall be commenced or continued against the Receiver except with the written consent of the Receiver or with leave of this Court.

## NO PROCEEDINGS AGAINST THE DEBTOR OR THE PROPERTY

8. THIS COURT ORDERS that no Proceeding against or in respect of the Debtor or the Property shall be commenced or continued except with the written consent of the Receiver or with leave of this Court and any and all Proceedings currently under way against or in respect of the Debtor or the Property are hereby stayed and suspended pending further Order of this Court.

## NO EXERCISE OF RIGHTS OR REMEDIES

9. THIS COURT ORDERS that all rights and remedies against the Debtor, the Receiver, or affecting the Property, are hereby stayed and suspended except with the written consent of the Receiver or leave of this Court, provided however that this stay and suspension does not apply in respect of any "eligible financial contract" as defined in the BIA, and further provided that nothing in this paragraph shall (i) empower the Receiver or the Debtor to carry on any business which the Debtor is not lawfully entitled to carry on, (ii) exempt the Receiver or the Debtor from compliance with statutory or regulatory provisions relating to health, safety or the environment, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien. Notwithstanding any other provision in this Order or these proceedings, the rights and remedies of Her Majesty the Queen in Right of the Province of Ontario, as Represented by the Minister of Northern Development, Mines and Forestry ("Ontario"), under the Crown Forest Sustainability Act, 1994, S.O. 1994, c. 25 (the "CFSA"), with respect to the Wood in the Mill Yard (as defined in the Affidavit of David Hayhurst sworn October 7, 2011) are not stayed, suspended, or otherwise limited, without prejudice to the right of any party to take any position contrary to Ontario and, in addition, the Receiver has a right to inspect the Wood in the Mill Yard within 30 days from the date of this Order, during which period the Wood will not be removed, disposed or otherwise used.

## NO INTERFERENCE WITH THE RECEIVER

10. THIS COURT ORDERS that no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Debtor, without written consent of the Receiver or leave of this Court.

## CONTINUATION OF SERVICES

11. THIS COURT ORDERS that all Persons having oral or written agreements with the Debtor or statutory or regulatory mandates for the supply of goods and/or services, including without limitation, all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Debtor are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Receiver, and that the Receiver shall be entitled to the continued use of the Debtor's current telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Receiver in accordance with normal payment practices of the Debtor or such other practices as may be agreed upon by the supplier or service provider and the Receiver, or as may be ordered by this Court.

## RECEIVER TO HOLD FUNDS

12. THIS COURT ORDERS that all funds, monies, cheques, instruments, and other forms of payments received or collected by the Receiver from and after the making of this Order from any source whatsoever, including without limitation the sale of all or any of the Property and the collection of any accounts receivable in whole or in part, whether in existence on the date of this Order or hereafter coming into existence, shall be deposited into one or more new accounts to be opened by the Receiver (the "Post Receivership Accounts") and the monies standing to the credit of such Post Receivership Accounts from time to time, net of any disbursements provided for herein, shall be held by the Receiver to be paid in accordance with the terms of this Order or any further Order of this Court.

**EMPLOYEES**

13. **THIS COURT ORDERS** that all employees of the Debtor shall remain the employees of the Debtor until such time as the Receiver, on the Debtor's behalf, may terminate the employment of such employees. The Receiver shall not be liable for any employee-related liabilities, including any successor employer liabilities as provided for in section 14.06(1.2) of the BIA, other than such amounts as the Receiver may specifically agree in writing to pay, or in respect of its obligations under sections 81.4(5) or 81.6(3) of the BIA or under the *Wage Earner Protection Program Act*.

**PIPEDA**

14. **THIS COURT ORDERS** that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, the Receiver shall disclose personal information of identifiable individuals to prospective purchasers or bidders for the Property and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete one or more sales of the Property (each, a "Sale"). Each prospective purchaser or bidder to whom such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the Sale, and if it does not complete a Sale, shall return all such information to the Receiver, or in the alternative destroy all such information. The purchaser of any Property shall be entitled to continue to use the personal information provided to it, and related to the Property purchased, in a manner which is in all material respects identical to the prior use of such information by the Debtor, and shall return all other personal information to the Receiver, or ensure that all other personal information is destroyed.

**LIMITATION ON ENVIRONMENTAL LIABILITIES**

15. **THIS COURT ORDERS** that nothing herein contained shall require the Receiver to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or

relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the Ontario *Environmental Protection Act*, the *Ontario Water Resources Act*, or the Ontario *Occupational Health and Safety Act* and regulations thereunder (the "Environmental Legislation"), provided however that nothing herein shall exempt the Receiver from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Receiver shall not, as a result of this Order or anything done in pursuance of the Receiver's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

**LIMITATION ON THE RECEIVER'S LIABILITY**

16. THIS COURT ORDERS that the Receiver shall incur no liability or obligation as a result of its appointment or the carrying out the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part, or in respect of its obligations under sections 81.4(5) or 81.6(3) of the BIA or under the *Wage Earner Protection Program Act*. Nothing in this Order shall derogate from the protections afforded the Receiver by section 14.06 of the BIA or by any other applicable legislation.

**RECEIVER'S ACCOUNTS**

17. THIS COURT ORDERS that the Receiver and counsel to the Receiver shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, and that the Receiver and counsel to the Receiver shall be entitled to and are hereby granted a charge (the "Receiver's Charge") on the Property, as security for such fees and disbursements, both before and after the making of this Order in respect of these proceedings, and that the Receiver's Charge shall form a first charge on the Property in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subject to sections 14.06(7), 81.4(4), and 81.6(2) of the BIA.

18. THIS COURT ORDERS that the Receiver and its legal counsel shall, at the request of any creditor of the Debtor, pass its accounts from time to time, and for this purpose the accounts of the Receiver and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

19. THIS COURT ORDERS that prior to the passing of its accounts, the Receiver shall be at liberty from time to time to apply reasonable amounts, out of the monies in its hands, against its fees and disbursements, including legal fees and disbursements, incurred at the normal rates and charges of the Receiver or its counsel, and such amounts shall constitute advances against its remuneration and disbursements when and as approved by this Court.

**FUNDING OF THE RECEIVERSHIP**

20. THIS COURT ORDERS that the Receiver be at liberty and it is hereby empowered to borrow by way of a revolving credit or otherwise, such monies from time to time as it may consider necessary or desirable, provided that the outstanding principal amount does not exceed \$1,500,000 (or such greater amount as this Court may by further Order authorize) at any time, at such rate or rates of interest as it deems advisable for such period or periods of time as it may arrange, for the purpose of funding the exercise of the powers and duties conferred upon the Receiver by this Order, including interim expenditures. The whole of the Property shall be and is hereby charged by way of a fixed and specific charge (the "Receiver's Borrowings Charge") as security for the payment of the monies borrowed, together with interest and charges thereon, in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subordinate in priority to the Receiver's Charge and the charges as set out in sections 14.06(7), 81.4(4), and 81.6(2) of the BIA.

21. THIS COURT ORDERS that neither the Receiver's Borrowings Charge nor any other security granted by the Receiver in connection with its borrowings under this Order shall be enforced without leave of this Court.

22. THIS COURT ORDERS that the Receiver is at liberty and authorized to issue certificates substantially in the form annexed as Schedule "A" hereto (the "Receiver's Certificates") for any amount borrowed by it pursuant to this Order.

23. THIS COURT ORDERS that the monies from time to time borrowed by the Receiver pursuant to this Order or any further order of this Court and any and all Receiver's Certificates evidencing the same or any part thereof shall rank on a *pari passu* basis, unless otherwise agreed to by the holders of any prior issued Receiver's Certificates.

GENERAL

24. THIS COURT ORDERS that the Receiver may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

25. THIS COURT ORDERS that nothing in this Order shall prevent the Receiver from acting as a trustee in bankruptcy of the Debtor.

26. THIS COURT ORDERS that the Applicants and any party who has filed a Notice of Appearance may serve any court materials in these proceedings by e-mailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time.

27. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

28. THIS COURT ORDERS that the Receiver be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Receiver is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

29. THIS COURT ORDERS that the Plaintiff shall have its costs of this motion, up to and including entry and service of this Order, provided for by the terms of the Plaintiff's security or, if not so provided by the Plaintiff's security, then on a substantial indemnity basis to be paid by the Receiver from the Debtor's estate with such priority and at such time as this Court may determine.

30. THIS COURT ORDERS that any interested party may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to the Receiver and to any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order

31. THIS COURT ORDERS that unless proof of sufficient insurance coverage is provided by the Debtor to Ernst & Young Inc. and the Applicant by 9:00 a.m. (Toronto time) on December 30, 2011, this Order shall become immediately effective.

Giuseppe Dipietro
Registrar

DEC 2 9 2011

MB

## SCHEDULE "A"

## RECEIVER CERTIFICATE

CERTIFICATE NO. ______________

AMOUNT $______________________

1. THIS IS TO CERTIFY that Ernst & Young Inc., the receiver and receiver and manager (the "Receiver") of the assets, undertakings and properties of St. Marys Paper Corp. (the "Debtor") acquired for, or used in relation to a business carried on by the Debtor, including all proceeds thereof (collectively, the "Property") appointed by Order of the Ontario Superior Court of Justice (Commercial List) (the "Court") dated the ___ day of ______, 20__ (the "Order") made in an action having Court file number CV-11-9367-00CL, has received as such Receiver from the holder of this certificate (the "Lender") the principal sum of $___________, being part of the total principal sum of $___________ which the Receiver is authorized to borrow under and pursuant to the Order.

2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded [daily][monthly not in advance on the ________ day of each month] after the date hereof at a notional rate per annum equal to the rate of ______ per cent above the prime commercial lending rate of Bank of _________ from time to time.

3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property, in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order and in the *Bankruptcy and Insolvency Act*, and the right of the Receiver to indemnify itself out of such Property in respect of its remuneration and expenses.

4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at Toronto, Ontario.

5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the Receiver

to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.

6. The charge securing this certificate shall operate so as to permit the Receiver to deal with the Property as authorized by the Order and as authorized by any further or other order of the Court.

7. The Receiver does not undertake, and it is not under any personal liability, to pay any sum in respect of which it may issue certificates under the terms of the Order.

DATED the _____ day of _____________, 20__.

Ernst & Young Inc., solely in its capacity
as Receiver of the Property, and not in its
personal or corporate capacity

Per: ______________________________

Name:

Title:

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

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

*Applicant* *Respondent*

**ONTARIO**
**SUPERIOR COURT OF JUSTICE**

Proceeding Commenced at Toronto

**RECEIVERSHIP ORDER**

**BLAKE, CASSELS & GRAYDON LLP**
Barristers and Solicitors
Box 40, Commerce Court West
199 Bay Street, Suite 2800
Toronto, Ontario M5L 1A9

**Michael McGraw** LSUC#: 46679C
Tel: (416) 863-4247
Fax: (416) 863-2653

**Marc Flynn** LSUC# 52831B
Tel: (416) 863-2685
Fax: (416) 863-2653

Lawyers for the Applicants

# TAB B

THIS SETTLEMENT AGREEMENT dated May 2, 2012

BETWEEN:

**ERNST & YOUNG INC., IN ITS CAPACITY AS RECEIVER AND RECEIVER AND MANAGER OF ST. MARYS PAPER CORP. AND NOT IN ITS PERSONAL OR CORPORATE CAPACITY (the "Receiver")**

- and -

**CATERPILLAR FINANCIAL SERVICES LIMITED ("Caterpillar")**

**WHEREAS:**

A. The Receiver was appointed as receiver and receiver and manager of the property, assets and undertaking of St. Marys Paper Corp. ("**St. Marys**") by order of the Superior Court of Justice dated December 29, 2011 (the "**Appointment Order**") effective December 30, 2011 (the "**Appointment Date**");

B. Caterpillar leased to St. Marys one (1) 2006 Caterpillar Model 980H Wheel Loader s/n CAT0980HCJMS01056 (the "**Equipment**") pursuant to CAT Financial Lease Agreement dated August 15, 2009 (the "**Lease**");

C. Prior to the Appointment Date, Caterpillar took possession of the Equipment from St. Marys;

D. The Receiver and Caterpillar have agreed to a settlement of any claims of the Receiver against Caterpillar.

**NOW THEREFORE,** for good and valuable consideration the sufficiency of which is hereby acknowledged, the Receiver and Caterpillar agree as follows:

(a) Caterpillar will pay the amount of CDN$50,000.00 to the Receiver in full satisfaction of any and all claims of the Receiver to the Equipment and any and all further claims that the Receiver or St. Marys may have against Caterpillar.

(b) Caterpillar and the Receiver will enter into the Mutual Release substantially in the form attached as Schedule "A" hereto releasing each other from any and all claims.

(c) This Settlement Agreement shall be subject to and conditional upon approval by the Superior Court of Justice (Commercial List).

DATED this 2nd day of May, 2012

**ERNST & YOUNG INC., IN ITS CAPACITY AS RECEIVER AND RECEIVER AND MANAGER OF ST. MARYS PAPER CORP., AND NOT IN ITS PERSONAL OR CORPORATE CAPACITY**

Per: ______________________

Name: Alex Morrison
Title: Senior Vice President

I have authority to bind the Corporation

DATED this 2nd day of May, 2012

**CATERPILLAR FINANCIAL SERVICES LIMITED**

Per: ______________________

Name: Renée Taraso
Title: Customer Service Manager

I have authority to bind the Corporation

## SCHEDULE A

## FULL AND FINAL MUTUAL RELEASE

**WHEREAS** Ernst & Young Inc. (the "**Receiver**") was appointed as receiver and receiver and manager of all of the assets, property and undertaking of St. Marys Paper Corp ("**St. Marys**") by Order of the Superior Court of Justice (Commercial List) dated December 29, 2011 (the "**Appointment Order**") effective December 30, 2011 (the "**Appointment Date**");

**AND WHEREAS** Caterpillar Financial Services Limited ("**Caterpillar**") leased to St. Marys one (1) 2006 Caterpillar Model 980H Wheel Loader s/n CAT0980HCJMS01056 (the "**Equipment**") pursuant to CAT Financial Lease Agreement dated August 15, 2009 (the "**Lease**");

**AND WHEREAS** prior to the Appointment Date, Caterpillar took possession of the Equipment from St Marys;

**AND WHEREAS** the Receiver and Caterpillar have entered into a Settlement Agreement dated May 2, 2012 (the "**Settlement Agreement**"), subject to court approval, pursuant to which (i) Caterpillar has agreed to pay CDN$50,000.00 to the Receiver in full satisfaction of any claims of the Receiver and (ii) the Receiver and Caterpillar have agreed to execute this Full and Final Mutual Release;

**NOW THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION**, the receipt and sufficiency of which is hereby acknowledged, the Receiver and Caterpillar (each also referred to herein individually as a "**Party**" or together as the "**Parties**") hereby agree as follows:

**RELEASE BY CATERPILLAR**

Caterpillar and its respective successors and assigns do each hereby forever, fully and completely release, acquit, remise and forever discharge the Receiver and St. Marys and their affiliates, directors, officers, employees, agents, representatives, servants, successors, heirs and assigns, and their respective heirs, executors, administrators, assigns, successors-in-interest, and each and every one of them, of and from any and all, and all manner of, claims, demands, actions, and causes of action, suits, debts, obligations, promises, expenses, bills, liens, liabilities, dues, accounts, bonds, covenants, contracts, agreements, costs, judgments and demands whatsoever, in law or in equity, or otherwise, whether known or unknown, accrued or unaccrued, direct or indirect, in its name and right or otherwise, which Caterpillar and its successors and assigns, ever had, now have, or can, shall or may in the future have against the Receiver and/or St. Marys and/or their affiliates, directors, officers, employees, agents, representatives, servants, successors, heirs and assigns, and their heirs, executors, administrators, assigns, successors-in-interest, and each and every one of them.

And for the same consideration it is agreed and understood that Caterpillar will not make or continue any claim or take or continue any proceeding against any other person or corporation who might claim contribution or indemnity in law or equity or under the provision of any statute or regulation from or which otherwise results in a claim against any person or entity discharged by this Full and Final Mutual Release in respect of the subject matter covered by this Full and Final Mutual Release.

**RELEASE BY THE RECEIVER**

The Receiver and its respective successors, assigns, employees, agents and affiliates, do each hereby forever, fully and completely release, acquit, remise and forever discharge Caterpillar and its affiliates, directors, officers, employees, agents, representatives, servants, successors, heirs and assigns, and their respective heirs, executors, administrators, assigns, successors-in-interest, and each and every one of them, of and from any and all, and all manner of, claims, demands, actions, and causes of action, suits, debts, obligations, promises, expenses, bills, liens, liabilities, dues, accounts, bonds, covenants, contracts, agreements, costs, judgments and demands whatsoever, in law or in equity, or otherwise, whether known or unknown, accrued or unaccrued, direct or indirect, in its name and right or otherwise, which the Receiver or St. Marys and their successors and assigns, ever had, now have, or can, shall or may in the future have against Caterpillar and/or its affiliates, directors, officers, employees, agents, representatives, servants, successors, heirs and assigns, and their heirs, executors, administrators, assigns, successors-in-interest, and each and every one of them.

And for the same consideration it is agreed and understood that the Receiver will not make or continue any claim or take or continue any proceeding against any other person or corporation who might claim contribution or indemnity in law or equity or under the provision of any statute or regulation from or which otherwise results in a claim against any person or entity discharged by this Full and Final Mutual Release in respect of the subject matter covered by this Full and Final Mutual Release.

**NO ADMISSION OF LIABILITY**

**THE PARTIES FURTHER** agree and acknowledge that the provisions of this Full and Final Mutual Release and the Settlement Agreement are a compromise of any and all outstanding matters or disputes between the Parties and shall not be considered as an admission of liability, fault, negligence or wrongdoing by any Party herein, but are made for the purpose of amicably resolving any and all matters or disputes between the Parties.

**BINDING NATURE OF RELEASE**

**THIS FULL AND FINAL MUTUAL RELEASE** shall inure to the benefit of, and be binding upon, each of the Parties and their respective successors and assigns.

**NON-ASSIGNMENT**

**THE PARTIES FURTHER** represent and warrant that they have not transferred or assigned and will not transfer or assign to any person or entity any rights, causes of action, or claims released in this Full and Final Mutual Release.

**AUTHORITY TO RELEASE**

**THE PARTIES DECLARE** that they have read and fully understand the terms of this Full and Final Mutual Release, have consulted with legal counsel, and that they voluntarily accept the same for purposes of making a full and final compromise of any and all matters and disputes between the Parties. The Parties further declare, represent and warrant that the respective person(s) executing this Full and Final Mutual Release on their behalf have the complete and absolute authority to do so for the purposes contained herein.

**GOVERNING LAW**

**THIS FULL AND FINAL MUTUAL RELEASE** shall be governed by, and is to be interpreted, construed and enforced in accordance with, the laws of Ontario and the laws of Canada applicable in Ontario, excluding any rule or principle of conflicts of law that may provide otherwise.

**IN WITNESS WHEREOF,** and intending to be legally bound hereby, the Parties have executed this Full and Final Mutual Release on the dates indicated below.

DATED this 2nd day of May, 2012

**ERNST & YOUNG INC., IN ITS CAPACITY AS RECEIVER AND RECEIVER AND MANAGER OF ST. MARYS PAPER CORP AND NOT IN ITS PERSONAL OR CORPORATE CAPACITY**

Per: ______________________

Name: Alex Morrison

Title: Senior Vice President

I have authority to bind the Corporation

DATED this 2nd day of May, 2012

**CATERPILLAR FINANCIAL SERVICES LIMITED**

Per: ______________________

Name: Renée Tarasso

Title: Customer Service Manager

I have authority to bind the Corporation

# TAB C

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

**ONTARIO**
**SUPERIOR COURT OF JUSTICE**
**COMMERCIAL LIST**

BETWEEN:

**INTERNATIONAL FOREST PRODUCTS LLC**
**(formerly known as 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**

**SECOND REPORT OF THE RECEIVER OF ST. MARYS PAPER CORP.**
**DATED MARCH 20, 2012**

## INTRODUCTION

1. Pursuant to the Order of this Court dated December 29, 2011, effective December 30, 2011, Ernst & Young Inc. ("**EYI**") was appointed as the receiver and receiver and manager (the "**Receiver**") of all of the assets, undertakings and properties of St. Marys Paper Corp. ("**St. Marys**" or the "**Company**") acquired for, or used in relation to the Company's business, including all proceeds thereof (the "**Property**") pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**") and section 101 of the *Courts of Justice Act*, R.S.O 1990 c C.43, as amended (the "**Appointment Order**") . A copy of the Appointment Order is attached hereto as Appendix "A".

2. The Appointment Order authorized the Receiver, among other things to:

   a) take possession of and exercise control over the Property and any and all proceeds, receipts, and disbursements arising out of, or from, the Property;

   b) market the Property, including advertising and soliciting offers in respect of the Property and negotiating terms and conditions that the Receiver deems appropriate;

   c) sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business:

      a. without the approval of this Court in respect of any transaction not exceeding $250,000, provided that the aggregate consideration for all such transactions does not exceed $1,000,000; and

      b. with the approval of this Court in respect of any transaction in which the purchase price, or the aggregate purchase price, exceeds the applicable amounts set out above;

   d) settle, extend or compromise any indebtedness owing to St. Marys; and

   e) apply for any vesting order or other orders necessary to convey the Property to a purchaser free and clear of any liens or encumbrances affecting such Property.

3. On January 18, 2012, this Court granted an Order (the "**Sales Process Order**") authorizing the Receiver to conduct a process to market and sell the Property of St. Marys (the "**Sales Process**") as set out in the procedures included in the Sales Process Order (the "**Sales Process Protocol**"). A copy of the Sales Process Order is attached hereto as Appendix "B".

**PURPOSE**

4. The purpose of this Second Report of the Receiver (the "**Second Report**") is to report to this Court with respect to:

(i) a summary of the activities of the Receiver to date;

(ii) the funding of the receivership and a summary of the statement of receipts and disbursements;

(iii) the status and results of the Sales Process conducted by the Receiver; and;

(iv) the Receiver's motion for an Order:

(a) approving the sale transaction (the "**Transaction**") contemplated by an agreement of purchase and sale (the "**Sale Agreement**") between St. Marys, by Ernst & Young Inc., solely in its capacity as court-appointed receiver and receiver and manager and not in its personal or corporate capacity, as Seller and 2319839 Ontario Inc., as Purchaser (the "**Purchaser**") dated March 15, 2012 and appended as Confidential Appendix "I" to this Second Report;

(b) vesting in the Purchaser the right, title and interest, if any, of the Company and the Receiver in and to the Purchased Assets described in the Sale Agreement (the "**Purchased Assets**");

(c) authorizing and directing the Receiver to, on the Company's behalf, terminate the employment of all individuals employed by the Company as of and following the date of the Appointment Order (other than any employee that was terminated in writing by the Receiver on the Debtor's behalf following the date of the Appointment Order) including, without limitation, all such employees on lay-off or leave of absence of any kind (the "**Employees**"), effective at 11:59 p.m. on the day immediately preceding the Closing Date (as defined in the Sale Agreement), by sending to each Employee on the Company's behalf written notice of termination by registered mail to the last known address of such Employee based on the books and records of the Company;

(d) declaring that the employment of each Employee be and is hereby deemed to be terminated effective at 11:59 p.m. on the day immediately preceding the Closing Date, whether or not such employee receives written notice of termination before the Closing Date or at all;

(e) if necessary as described below, directing and declaring that the St. Marys Combined Heat and Power (CHP III) Purchase Agreement dated November 5, 2010, made by and between St. Marys Renewable Energy LP and Ontario Power Authority and all rights, benefits and advantages to be derived therefrom (the "**OPA Agreement**") be deemed to be released, quit-claimed, assigned, transferred and set over to the Purchaser by St. Marys Renewable Energy LP (the "**Limited Partnership**") and St. Marys Renewable Energy Corp. (the "**General Partner**"), without compensation, liability or obligation on the part of the Purchaser to the Limited Partnership or the General Partner, but subject to any rights of consent or approval of the Ontario Power Authority set out in the OPA Agreement;

(f) if necessary as described below, directing the General Partner as the general partner of the Limited Partnership to forthwith produce to the Receiver a true copy of all partnership agreement(s) and other constating, management or governing documents and agreement(s) relating to the Limited Partnership, the limited partnership units in the Limited Partnership held by the Debtor, and the general partnership units in the Limited Partnership held by the General Partner, including all amendments to such documents and agreements, any power of attorney granted to the General Partner, the record of limited partners, the record of the General Partner and copies of all minutes of meetings and resolutions of the partners of the Limited Partnership, the General Partner, the board of directors and any committee of the board of directors of the General Partner to the extent pertaining to the Limited Partnership;

(g) directing that Confidential Appendix "I" to this Second Report remain confidential and subject to a protective order of the Court and that it not form part of the permanent court record except by further order of this Court made on notice to the Receiver, International Forest Products LLC (formerly known as International Forest Products Corporation) ("**IFP**"), and the Purchaser; and

(h) approving this Second Report, and the conduct and activities of the Receiver as described herein,

all as discussed in further detail in this Second Report.

## TERMS OF REFERENCE

5. In preparing this Second Report, the Receiver has been provided with and in making the comments herein relied upon, unaudited financial information, the Company's books and records, financial information prepared by the Company, and discussions with management of St. Marys. The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Receiver expresses no opinion or other form of assurance in respect of such information contained in this Second Report.

6. Unless otherwise stated all monetary amounts contained herein are expressed in Canadian Dollars.

7. Capitalized terms not defined in this Second Report are defined in the Appointment Order.

## BACKGROUND

8. 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. Prior to March 2011 St. Marys operated a groundwood pulp and super calendar specialty paper mill (the "**Mill**") producing paper grades used mainly by magazine publishers and retailing companies for high quality advertising inserts, flyers and catalogues. St. Marys has been in operation for over 100 years.

9. In March 2011, St. Marys was forced to shut down the Mill as a result of an unexpected mechanical issue on its largest paper machine. This paper machine provides more than half of its annual output capacity. St. Marys has addressed the mechanical issue, however, due to weaker market conditions, St. Marys decided not to restart the Mill until market conditions improved.

10. Due to the shortage of funds, St. Marys management determined that the Mill should be preserved in a 'cold idle' state until market conditions improved. Accordingly, a process was commenced to winterize the Mill and prepare it for a 'cold idle' shutdown.

11. As a result of the shutdown of the Mill, St. Marys experienced financial difficulties and a significant liquidity crisis. In addition, St. Marys was unable to secure insurance coverage for the Mill and its operations resulting in the appointment of the Receiver effective December 30, 2011.

**SUMMARY OF THE ACTIVITIES OF THE RECEIVER**

12. Since its appointment, among other things, the Receiver obtained insurance coverage for the Property, arranged for security of the Property, froze the Company's bank accounts and opened a Receiver's bank account. The activities of the Receiver since its appointment are more fully described in the First Report of the Receiver dated January 13, 2012 (the "**First Report**"). A copy of the First Report (without the Appendices thereto) is attached hereto as Appendix "C".

13. Pursuant to obtaining the Sales Process Order, the Receiver commenced the Sales Process as described in the First Report. The activities of the Receiver with respect to the Sales Process are described further in this Second Report.

14. In addition to conducting the Sales Process, among other things, since the First Report, the Receiver took the following steps and activities in conjunction with its mandate:

a) the Receiver continued winterization activities to maintain the mill in a cold idle condition for the duration of the winter months;

b) the Receiver continued the security arrangements formerly in place by St. Marys with respect to the security of the Mill;

c) the Receiver requested that its counsel and IFP's counsel review and consider the eligibility of St. Marys' former employees under the *Wage Earner Protection Program Act* ("**WEPPA**"), which review determined that three former employees of

St. Marys were entitled to claims under WEPPA. The Received notified these three employees of their entitlement to claims under WEPPA, has filed the required forms with Human Resources and Skills Development Canada, and is providing further information to St. Marys' union in response to inquiries concerning eligibility for WEPPA claims;

d) the Receiver was advised by a clay supplier to St. Marys that the supplier owned certain rail cars in which clay was supplied to St. Marys while it was operating prior to the receivership proceedings. Further, the Receiver was advised by the clay supplier that due to winter weather conditions, the clay in the rail clay cars was no longer usable and no longer had any value. Based on discussions with St. Marys' employees, the Receiver understands that St. Marys purchased clay in the form of a slurry which hardens in winter conditions and cannot be used. St. Marys' employees also confirmed that the clay cars belonged to the clay supplier. The clay supplier provided proof of ownership of the clay cars which was reviewed by IFP's counsel. Accordingly, with the agreement of IFP, the Receiver requested the clay supplier to take back its clay cars. The clay supplier advised that it would arrange to take back its clay cars once the rail lines were no longer frozen;

e) the Receiver also received a number of other property claims from certain suppliers which are being reviewed by IFP's counsel. Based on that review, in consultation with IFP, the Receiver continues to return the property claimed by such suppliers;

f) the Receiver met with representatives of the City of Sault St. Marie (the "**City**") to discuss the status of St Marys' property taxes and understand the calculation related to the property tax refund received by St. Marys in or about November 2011. The Receiver has been notified by the Assessment Review Board that certain hearings related to St. Marys property taxes are scheduled for late March. Accordingly, the Receiver is working with St. Marys' property tax consultants to determine next steps related to the assessment of St. Marys' property taxes;

g) the Receiver has continued to respond to and address creditor inquiries relating to St. Marys' non-payment of liabilities incurred prior to the Appointment Order;

h) the Receiver invited parties to submit letters of intent to purchase certain wood located in the yard of St. Marys (the "**Mill Yard Wood**"). The Mill Yard Wood was purchased by St. Marys when it was operating, and is subject to a lien in favour of the Ministry of Natural Resources (the "**MNR**");

i) the Receiver prepared updated the cash flow statements (the "**Cash Flow Statement**") to March 24, 2012 in order to secure funding from IFP (through Receiver's Certificates as provided for in the Appointment Order) in order to fund the receivership and the Sales Process;

j) the Receiver attended on calls with the Ontario Ministry of Natural Resources with respect to the receivership proceedings;

k) as discussed further below, in consultation with IFP, the Receiver negotiated the settlement with Superior Land Management Inc. ("**Superior**") in which St. Marys will receive $100,000 from Superior;

l) as discussed further below, in consultation with IFP and Cafo Inc. ("**Cafo**"), certain insurances policies of St. Marys which were no longer required by St. Marys were terminated in order to seek to preserve the value of unearned insurance premiums, financed by Cafo;

m) the Receiver filed a property tax vacancy rebate application with the City for a property tax refund as St. Marys was not operating for the majority of the 2011 property tax year; and

n) the Receiver attended on calls with the Ministry of Environment with respect to activities at St. Marys and worked with St. Marys to provide status reports requested by the Ministry of Environment.

15. The Receiver was advised by St. Marys' employees that, on February 28, 2011, there was a break-in at the Mill resulting in damage to certain photocopiers and computer equipment. The police attended at the premises and a police report has been filed. St. Marys is in the process of assessing the value of the damage, but such damage is not expected to be significant.

**SETTLEMENT WITH SUPERIOR**

16. The Receiver understands that prior to the Appointment Order St. Marys was negotiating a potential settlement with Superior with respect to a dispute concerning whether St. Marys' was a valid assignee of a profit-a-pendre agreement between St. Mary's Paper Limited and Superior dated August 30, 2002 (the "**PAP Agreement**"), which PAP Agreement was purportedly assigned to St. Marys as part of a 2007 receivership of St. Marys Paper Limited.

17. Superior has taken the position that the PAP Agreement was not validly assigned to St. Marys and that, accordingly, the PAP Agreement does not form part of the property of St. Marys that is capable of being sold pursuant to the Sales Process.

18. With leave of the Court on consent of the Receiver and IFP, Superior commenced an Application seeking a determination of such issues, which Application was reserved to be heard in connection with any motion seeking a sale of the assets of St. Marys. A copy of Superior's Application, along with the Court's Endorsement granting leave to commence the Application, are attached hereto as Appendix "D".

19. The Receiver and Superior have agreed to a settlement of those issues, pursuant to which Superior will pay the Receiver the amount of $100,000 and in exchange the Receiver will not oppose an order (on a no costs basis) granting the relief sought in Superior's Application.

**MOTION BY CAFO**

20. Cafo Inc. has brought a motion in this receivership proceeding seeking an order entitling Cafo to terminate certain insurance policies of St. Marys financed by Cafo under a Continuous Premium Instalment Contract No. 91-30-129858-9 dated July 27, 2011 (the "**PIC**") and enforce its security over the unearned insurance premiums under such insurance policies.

21. It was Cafo's position that the unearned insurance premiums over which Cafo held security were approximately $14,527.15 as at March 7, 2012 and were depreciating at a daily rate of $127.43.

22. The Receiver determined that the insurance policies at issue in the Cafo motion were no longer required by St. Marys given the insurance coverage put in place by the Receiver following the Appointment Order. As a result, with the agreement of IFP, the Receiver agreed with Cafo that the Receiver would terminate the insurance policies and any unearned insurance premiums refunded by the insurer would be held by the Receiver pending an agreement between IFP and Cafo or a determination by the Court with respect to priority to the unearned insurance premiums.

23. On March 14, 2012, on consent of Cafo and the Receiver, the Court adjourned Cafo's motion, which Cafo and the Receiver will seek to schedule at the next court appearance. A copy of the Court's Endorsement in that regard is attached hereto as Appendix "E".

24. The Receiver has effected a termination of the relevant insurance policies effective December 29, 2011 and is awaiting receipt of the refunded unearned insurance premiums, which the Receiver will hold as noted above.

**FUNDING OF THE RECEIVERSHIP**

25. As described in the First Report, the Receiver advised Royal Bank to freeze the Company's bank accounts and the Receiver opened a separate bank account, following which the Receiver requested that Royal Bank transfer the funds in the Company's

account to the Receiver's account. As a result of this transfer, the Receiver received approximately $84,600 in Canadian currency and approximately $14,900 in U.S. currency.

26. In order to fund the ongoing holding costs of the Mill (including insurance, security and other staff, electricity, etc.) and to finance the receivership and the Sales Process, the Receiver requested funding from IFP. IFP agreed to provide limited funding to the Receiver while the Receiver carries out the Sales Process. Funding was provided to the Receiver pursuant to Receiver's Certificates issued by the Receiver as described in the Appointment Order.

27. As described in the First Report, the Receiver issued its first Receiver's Certificate in the amount of $470,000 to fund these Receivership proceedings until the end of January 2012, at an annual interest rate of 18% (the "**First Receiver's Certificate**"). In addition, the Receiver issued its second (the "**Second Receiver's Certificate**") and third (the "**Third Receiver's Certificate**") Receiver's Certificates in the amount of $325,000 and $250,000 respectively, to fund these Receivership proceedings until approximately March 24, 2012, at an annual interest rate of 18%. Copies of the Second Receiver's Certificate and Third Receiver's Certificate are attached hereto as Appendix "F" to this Second Report.

## STATEMENT OF RECEIPTS AND DISBURSEMENTS

28. Attached hereto as Appendix "G" is the Receiver's Statement of Receipts and Disbursements for the period from December 30, 2011 to March 16, 2012, which reflect remaining Candian funds of approximately $279,000 as of March 16, 2012. Appendix "G" includes further details with respect to the individual receipt and disbursement line items. In addition, the Receiver holds approximately US$14,900 is a U.S. currency account. As of March 16, 2012, the Receiver also holds approximately $1.0 million in a separate escrow account which includes deposits received from bidders with respect to the Sales Process. Deposits from unsuccessful bidders will be returned to such bidders.

## OVERVIEW OF THE SALES PROCESS

29. As described in the First Report the Receiver established the Sales Process to market the Property to parties who may wish to operate the Property as a going concern, or to decommission and liquidate the plant and equipment and/or other property of St. Marys. The detailed Sales Process Protocol, as approved by the Court, is attached to the Sales Process Order which is attached as Appendix "B" to this Second Report.

### Description of the Mill

30. The Mill is located at the Canadian/U.S. (Michigan) border on the Great Lakes waterway, at Sault Ste. Marie, Ontario. St. Marys is a groundwood pulp and paper mill with an annual capacity of 240,000 tons on three paper machines producing quality super calendar paper grades including a wide range of basis weights in the SCA and SCB grades, used mainly by magazine publishers and retailing companies for high quality advertising inserts, flyers and catalogues.

31. By late 2009 St. Marys suspended operations as a result of poor market conditions caused by supplier overcapacity. The Mill restarted during 2010 but was idled again in April 2011 primarily as a result of weaker market conditions. The Mill is currently winterized in a cold idle state but continues to be supervised by security staff and maintenance staff. The holding costs are approximately $400,000 a month. These holding costs include payroll expenses for the staff at the mill including staff on security shift work, electricity costs for lighting in the Mill and main office building and limited heating in certain areas of the Mill and the main office building, other utility costs, insurance expenses, costs related to winterizing the Mill and repairs and maintenance costs and costs related to the receivership proceedings.

### The Sales Process

32. Pursuant to the Sales Process Protocol, the Receiver initiated the Sales Process which included sending a detailed teaser describing the Mill and the cogeneration opportunity available at the Mill, a confidentiality agreement (the "**CA**") for parties interested in obtaining access to the data room and arranging site visits to the Mill. It was hoped that the Sales Process would identify a purchaser for the Mill that would operate the Mill as a paper mill or an alternative wood products facility, and if no such purchaser was identified, then a liquidation purchaser would be identified.

33. A total of 177 parties were contacted, including 15 energy related parties, 75 financial parties, 54 strategic parties, and 33 liquidators and other parties.

34. In addition to contacting the above parties, advertisements were placed in the *Sault Star* and Foresttalk.com on January 20, 2012 and in the national edition of the *Globe and Mail* on January 23, 2012. Further to these advertisements, certain interested parties contacted the Receiver requesting information on the Sales Process. The Receiver also set up an electronic data room which included certain financial information, the teaser, a sales package and information on the capital assets, inventory, timber supply, cogeneration project, land and buildings and employees. The electronic data room also included a template asset purchase agreement for bidders to submit an offer.

35. The Receiver received feedback from certain parties that the costs required to return the Mill to its operating status would likely make it uneconomical to re-start the Mill given the current market conditions in the super calendar paper industry.

36. However, as a result of the Sales Process, 36 parties executed CAs and were provided with access to the electronic data room and offered site visits. Most parties who signed CAs accessed the electronic data room and 14 parties conducted site visits. 15 parties submitted a Letter of Intent ("**LOI**") to the Receiver. Subsequent to receiving the LOIs the Receiver offered each of the parties that submitted an LOI the opportunity to conduct additional due diligence and to submit a final bid (the "**Bid**") that would represent each parties' final offer. Further, each of these parties was advised to use the template asset purchase agreement provided in the electronic data room.

37. Following additional due diligence, on February 10, 2012, nine parties submitted Bids:

a) three of the Bids were from parties interested in operating certain aspects of the Mill or redeveloping the Mill into a bio-mass operation with a cogeneration plant while liquidating some or all of the assets of the Mill operations;

b) three Bids were from auctioneer firms; and

c) three Bids were from demolition firms.

38. As the Bids from certain parties contemplated operating certain aspects of the Mill or redeveloping the Mill into a bio-mass operation with a cogeneration plant while liquidating some or all of the assets of the Mill operations, the Receiver focussed its discussions with these parties in order to preserve at least a portion of the Mill as an operating entity. Although, as described below, there was minimal interest from certain bidders in operating the Mill as a going concern or as a paper Mill, it was the Receiver's view that these parties presented significant closing risks with respect to closing the Transaction in a timely manner.

39. The following table summarizes the paragraphs above with respect to the parties contacted, the teasers sent, the CAs received, site visits conducted and data room access provided leading to the LOIs and Bids submitted:

| Type of Party | Parties Contacted | Teasers Sent | Executed CAs | Site Visits | LOIs Submitted | Offers Submitted |
|---|---|---|---|---|---|---|
| Energy | 15 | 11 | 6 | 3 | 2 | 2 |
| Financial - Canada / US | 75 | 45 | 9 | 1 | 0 | 0 |
| Strategic | 54 | 34 | 4 | 1 | 2 | 1 |
| Total non-liquidators | 144 | 90 | 19 | 5 | 4 | 3 |
| Liquidators and Others | 33 | 33 | 17 | 9 | 11 | 6 |
| **Total** | **177** | **123** | **36** | **14** | **15** | **9** |

40. Subsequent to the receipt of the Bids, the Receiver, in consultation with IFP commenced discussions with certain parties to clarify items presented in their Bids and understand certain conditions included in these Bids.

41. None of the Bids received would have generated sufficient proceeds to pay IFP's debt in full as at the closing of the Transaction, which includes IFP's outstanding debt and costs as well as amounts funded by IFP during this receivership proceeding.

42. As described above, in addition to the Purchaser, three of the initial Bids received on February 10, 2012 were from parties interested in operating certain aspects of the Mill or redeveloping the Mill into a bio-mass operation with a cogeneration plant while liquidating the paper Mill operations:

a) one Bid was received that proposed future payments to be made once the Mill recommenced operations and after the cogeneration plant was in operation. The Bid was also subject to further due diligence. However, this Bid was more in the nature of an expression of interest, was not accompanied by a deposit and did not contemplate any cash payment on closing, which was unacceptable to IFP. The party was requested to include an upfront cash payment, but refused to do so. Accordingly this Bid was not pursued any further.

b) one Bid was received that proposed to redevelop the Mill as a bio-mass mill with a cogeneration plant. However, this Bid was more in the nature of an expression of interest, was not accompanied by a deposit, and had a low initial cash payment which was unacceptable to IFP. Accordingly this Bid was not pursued further.

c) one Bid was received that proposed to redevelop the Mill as a bio-mass mill with a cogeneration plant. However, this Bid was more in the nature of an expression of interest. Further, this Bid was submitted jointly by two companies and, in the Receiver and IFP's view, contained conditions that would have made the transaction difficult to close in a timely manner. This Bid included a deposit of $250,000, however, soon after the Bid was submitted, the party that provided the deposit advised the Receiver that it was no longer willing to partner with its co-bidder and was withdrawing from the Sales Process. The Receiver was subsequently advised that the other party would continue to pursue an acquisition of the Property. An offer was subsequently submitted that contained several conditions that, in the Receiver and IFP's view, would have made the transaction difficult to close in a timely manner. In addition, this party did not submit its revised offer on the template asset purchase agreement, and the party did not provide satisfactory evidence that it had the financing to complete the sale transaction despite several requests from the Receiver for such evidence. Accordingly, based on the criteria described further in this Second Report, this Bid was not selected as the final Bid.

43. As a result of the foregoing, the Receiver engaged in further discussions with a select group of demolition and auctioneering firms, and two such parties were selected for further negotiations on a transaction in parallel to discussions with one party interested in operating certain aspects of the Mill or redeveloping the Mill into a bio-mass operation, while liquidating certain assets of the Mill.

44. Those three parties with whom discussions continued were provided with opportunities to conduct further due diligence including opportunities to revisit the Mill. Each of those parties submitted a Bid to the Receiver. One of the auctioneer firms selected amended its Bid to include certain additional assets and included the possibility of redeveloping the Mill into a bio-mass operation.

45. In addition to the above three bids, a further Bid was subsequently received from a party who had not previously submitted an LOI or submitted an offer on February 10, 2012.

46. The Receiver ultimately assessed those four Bids based on the following primary considerations:

a) the amount of consideration proposed in the transaction;

b) the level of due diligence required to be completed prior to closing;

c) the conditions precedent to the closing of a sale transaction; and

d) the ability to close the transaction as soon as possible.

47. Based on the criteria described above, the Purchaser (2319839 Ontario Inc.) was selected as the final party with which to enter into a purchase and sale agreement, and the Receiver, in consultation with IFP, proceeded to negotiate the Sale Agreement with the Purchaser, which was finalized and signed as of March 15, 2012.

48. A confidential summary of the Bids received will be provided to the Court on the return of the Receiver's motion with respect to the approval of the Transaction.

**OVERVIEW OF THE SALE AGREEMENT**

49. A copy of the Sale Agreement, with the cash purchase price redacted, is attached hereto as Appendix "H".

50. An unredated copy of the Sale Agreement is attached hereto as Confidential Appendix "I", which shall be excluded from the publicly available version of this Second Report but will be provided to the Court on a confidential basis subject to a request by the Receiver for a protective order with respect to Confidential Appendix "I", as discussed further below.

51. The Purchaser is a consortium of companies including an auctioneer, a real estate redevelopment company, a metals recycling company and a forest products company. The Receiver understands that the Purchaser may potentially seek to redevelop the Mill into a bio-mass facility with a cogeneration plant while liquidating the Mill assets.

52. The purchase price for the Purchased Assets is set out in section 3.1 of the Sale Agreement. The Receiver received a deposit of $250,000 from the Purchaser and the remaining purchase price is to be paid to the Receiver on closing. The closing will be 10 business days after this Court grants the Approval and Vesting Order or such other date as the Parties agree.

53. The Purchased Assets are being sold on an "as is, where is" basis and include:

a) the inventory, machinery, equipment and furniture;

b) the real property, including the improvements and fixtures;

c) the Seller's interest in certain assignable permits, contracts, leases and leased property;

d) all intellectual property;

e) all documents related to the Purchased Assets;

f) at the option of the Purchaser to be exercised prior to Closing, St. Marys' limited partnership units in the Limited Partnership (defined above);

g) the rights of the Seller to timber or wood supply relating to the operation of the Mill subject to the Purchaser's negotiations with the MNR; and

h) all other personal property on the real property,

all as detailed further in the Sale Agreement

54. As detailed further in the Sale Agreement, the excluded assets ("**Excluded Assets**") include, *inter alia*:

a) cash and cash equivalents, bank accounts and marketable securities;

b) books and records of the Company;

c) capital stock of the Company;

d) tax refunds including income tax refunds, property or realty tax refunds related to the Company and the Receiver;

e) the Mill Yard Wood;

f) the rights pursuant to the agreements with Superior or the proceeds of the settlement with Superior noted above;

g) accounts receivable;

h) causes of action arising prior to the closing, including certain particular rights and claims of St. Marys;

i) St. Marys' limited partnership units in the Limited Partnership if the Purchaser does not exercise its option to include the limited partnership units as part of the Purchased Assets;

j) the employee collective agreements and memorandums of settlement and other benefit, retirement or pension plans; and

k) all deposits made by the Company.

55. Other significant aspects in the Sale Agreement include:

a) the Purchaser requires that the Receiver request each supplier of certain hazardous substances stored or located on the Purchased Assets to remove such substances at such suppliers' own risk and cost and at no cost to the Receiver. Any hazardous substances removed prior to the Closing Date are deemed to be Excluded Assets and any hazardous substances remaining as of the Closing Date are deemed to be Purchased Assets;

b) the Purchaser requires that the Seller terminate the employment of all employees of the Company effective the day immediately preceding the Closing Date, and to provide to the Purchaser evidence of termination of employees. The Receiver intends to send, on St. Marys' behalf, termination letters to each of the employees of St. Marys (other than those employees previously terminated) by registered mail to the last known address of such employee based on the records of the Company terminating the employees effective as at 11:59 p.m. on the day immediately preceding to the Closing Date. However, given that the Purchaser requires assurance that all employees of the Company are effectively terminated prior to the Closing Date but that the majority of the employees had been on lay-off for in excess of six months prior to the Appointment Order, it is possible that the Company's record of the addresses of employees may be out of date. As such, the Receiver is also requesting an order of this Court deeming the termination of employment effective as at 11:59 p.m. on the day immediately preceding the Closing Date irrespective of whether an employee actually receives the termination letter;

c) if from the date of the signing of the Sale Agreement until the closing of the Transaction, any of the Purchased Assets are destroyed or rendered inoperable, the Purchaser shall still acquire the Purchased Assets and take an assignment from the Seller of all insurance proceeds payable to the Seller in respect of the damages to the Purchased Assets. If the damages exceed $650,000 or are not covered by insurance for full replacement value, then the Purchaser shall have the option of (i) terminating the Sale Agreement; or, (ii) where insurance proceeds are payable, accepting such proceeds and proceeding with the transactions contemplated by the Sale Agreement with no reduction to the Purchase Price; or, (iii) where no insurance proceeds are payable, proceeding with the transactions contemplated by the Sale Agreement with a reduction to the Purchase Price in an amount equal to the value of such damages;

d) following closing, the Purchaser and Seller agree to permit their representatives to have access, at reasonable times to the books and records of the company to enable the Purchaser and Seller to prepare tax, financial, court and employee related filings;

e) the Seller shall cooperate with and assist the Purchaser in estimating and calculating the amount of any payments or obligations required to be paid, performed or discharged to effect assignment of certain contracts, leases or permits;

f) As discussed below, if the partnership agreements or other constating documents or agreements relating to the limited partnership units held by St. Marys as limited partner of the Limited Partnership have not been obtained before the time the Receiver serves the materials in support of the motion for the Approval and

Vesting Order, the Receiver is required to request in its motion, on notice to the Limited Partnership and the General Partner, that this Court make an order requiring the General Partner to forthwith produce to the Receiver a copy of such documents and agreements;

g) pursuant to the Sale Agreement, the Receiver shall use reasonable efforts to obtain an assignment by the Limited Partnership of the OPA Agreement to the Purchaser (subject to any consent or approvals rights of the Ontario Power Authority under the OPA Agreement) and a release of the Limited Partnership and the General Partner's right, title and interest in the OPA Agreement, and in the event that such an assignment and release of interest does not appear to be forthcoming from the Limited Partnership and the General Partner, the Sale Agreement requires that the Receiver bring a motion seeking an order assigning the OPA Agreement to the Purchaser, subject to any consent or approval of the Ontario Power Authority required under the OPA Agreement, and an order releasing and quitclaiming any interest of Limited Partnership and the General Partner in the OPA Agreement;

h) for a period of 45 days after the closing of the Transaction, the Seller shall, without payment of funds, use reasonable efforts to obtain the consent of persons under contracts, leases or permits that were not assigned at the closing of the transaction. Upon receipt of such consents, the Seller agrees to assign such contracts, leases or permits to the Purchaser; and

i) the Seller shall deliver a closing certificate executed by the Seller, in a form satisfactory to the Purchaser, acting reasonably, certifying that all of the representations and warranties of the Seller hereunder remain true and correct in all material respects as of the closing date.

**MATTERS RELATING TO THE LIMITED PARTNERSHIP**

56. The Receiver understands that St. Marys holds 99.99% of the limited partnership units of the Limited Partnership (defined above), of which the General Partner (defined above) is the general partner.

57. The Purchaser has requested copies of any partnership agreements or other constating documents and agreements or other documents in respect of the Limited Partnership and upon receipt of such agreements the Purchaser has the option under the Sale Agreement, if approved by the Court, to include St. Marys' limited partnership units as part of the Purchased Assets.

58. The Receiver has made several requests of Mr. Gordon Acton (the principal of the General Partner and one of the former principals of St Marys) for a copy of such documents, including by way of letter from counsel to the Receiver dated Marcy 14, 2012 (the "**March 14 Letter**"), a copy of which is attached hereto as Appendix "J". While Mr. Acton has advised that he is searching for any such documents, the Receiver has not been provided with any of them as of the date of this Second Report. Accordingly, the Receiver seeks an order of the Court, if necessary, compelling production of such agreements and documents in the event that they are not provided prior to the hearing of this motion.

59. The Limited Partnership is a party to the OPA Agreement with the Ontario Power Authority.

60. As noted above, pursuant to the Sale Agreement, the Receiver is required to use reasonable efforts to obtain an assignment by the Limited Partnership of the OPA Agreement to the Purchaser (subject to any consent or approvals rights of the Ontario Power Authority under the OPA Agreement) and a release of the Limited Partnership and the General Partner's right, title and interest in the OPA Agreement. In the March 14 Letter, the Receiver further requested of Mr. Acton that the Limited Partnership, by the General Partner, provide a written release, quit-claim and assignment to an in favour of a

purchaser of all of the Limited Partnership's right, title and interest in and to the OPA Agreement.

61. In the event that such an assignment and release of interest does not appear to be forthcoming from Limited Partnership and the General Partner, the Sale Agreement requires that the Receiver bring a motion seeking an order assigning the OPA Agreement to the Purchaser, subject to any consent or approval of the Ontario Power Authority required under the OPA Agreement, and an order releasing and quitclaiming any interest of Limited Partnership and the General Partner in the OPA Agreement.

62. Accordingly, in the event such agreement and cooperation is not obtained prior to the hearing of this motion, the Receiver respectfully requests an order of the Court assigning the OPA Agreement to the Purchaser, subject to any consent or approval of the Ontario Power Authority required under the OPA Agreement, and an order releasing and quitclaiming any interest of the Limited Partnership and the General Partner in the OPA Agreement.

63. As the 99.99% limited partner in the Limited Partnership, it appears to the Receiver that St. Marys is the party with the real economic interest in the Limited Partnership and thus the real economic interest in the OPA Agreement of which the Limited Partnership is a party.

64. However, particularly given that the Receiver and the Purchaser do not have a copy of any partnership agreements or other constating agreements or documents which would address the rights and powers of St. Marys in relation to the Limited Partnership, the Receiver either requires the General Partner to cooperate to effect an assignment of the interest in the OPA Agreement to the Purchaser or requires an order of this Court effecting the assignment.

## REQUEST FOR A PROTECTIVE ORDER

65. As noted above, an unredated copy of the Sale Agreement is attached hereto as Confidential Appendix "I", which shall be excluded from the publicly available version of this Second Report but will be provided to the Court on a confidential basis subject to a request by the Receiver for a protective order with respect to Confidential Appendix "I" as discussed further below.

66. The Purchaser has requested that the Cash Purchase Price not be disclosed publicly because it will be selling certain of the Purchased Assets.

67. The Receiver believes that the public non-disclosure of the Cash Purchase Price is reasonable and appropriate in order to protect the legitimate business interests of the Purchaser and to also protect the integrity of any further marketing of the Purchased Assets in the event that the Sale Agreement does not close as anticipated.

## SERVICE

68. On March 19, 2012, by letter from the Receiver's counsel, the Receiver served the parties on the Service List (a copy of which is attached hereto as Appendix "K") (the "**Service List**") with a copy of the Receiver's Notice of Motion (including a draft form of Approval and Vesting Order) seeking the relief being sought by the Receiver as outlined in this Second Report (the "**Receiver's Notice of Motion**"). The Receiver is advised by its counsel that (i) for parties (or their counsel) on the Service List for which email addresses are known to the Receiver's counsel, the Receiver's Notice of Motion was sent to those parties (or their counsel) by email transmission at the email address indicated on the Service List; (ii) for parties (or their counsel) on the Service List for which facsimile numbers are known to the Receiver's counsel, the Receiver's Notice of Motion was sent to those parties (or their counsel) by facsimile transmission at the facsimile number indicated on the Service List; and (iii) for parties (or their counsel) on the Service List for which no email addresses or facsimile numbers are known to the Receiver's counsel, the Receiver's Notice of Motion was sent to those parties (or their counsel) by courier

delivery at the address indicated on the Service List.

69. The Receiver has instructed its counsel to serve the Receiver's Motion Record (including a copy of this Second Report) to the parties (or their counsel) on the Service List in the same manner as the Receiver's counsel served a copy of the Receiver's Notice of Motion.

**RECOMMENDATIONS**

70. It is the Receiver's view that the Sales Process was conducted in a fair and structured manner, and comprised a reasonably comprehensive marketing of the assets, property and undertaking of St. Marys having regard to the limited time frame in order to solicit potential purchasers for the Mill given the financial constraints and limitations facing the receivership estate, and that the Sales Process resulted in reasonable effort to solicit a transaction with a strategic party that would operate certain aspects of the Mill or redevelop the Mill into a bio-mass facility with a cogeneration plant.

71. However, as set out above, interested parties provided feedback that, in their view, the Mill was uncompetitive in the current market and the cost to return it to operating status would make a re-start of the Mill uneconomical for the purposes of manufacturing paper.

72. It is the Receiver's view that, particularly given the results of the Sales Process summarized above and the fact that no strategic party was able to credibly demonstrate the capacity to purchase the Mill and operate it as a going concern, the sale to the Purchaser is the transaction which will realize the highest amount of proceeds from the Mill and its real property in a timely manner, as supported by the Sales Process.

73. The Receiver also notes that none of the Bids received by the Receiver pursuant to the Sales Process would have been sufficient to discharge the debt owing to IFP in full at the closing of the Transaction, and IFP is supportive of the Transaction entered into with the Purchaser and supports the Receiver's motion seeking, *inter alia*, approval of the Sale Agreement.

74. Additionally, the Receiver notes that IFP is currently funding holding costs of approximately $400,000 a month which include all professional fees associated with the receivership, but that IFP is not willing to continue to provide funding for further holding costs for any continued marketing of the assets or business of the Company.

75. Based on the above, the Receiver recommends the Transaction with the Purchaser for the following reasons:

    a) the Transaction will generate cash proceeds from the sale in an amount acceptable to IFP the first secured creditor of St. Marys;

    b) approval of the Transaction ceases funding of costs by IFP caused by the ongoing payment of the Mill operating costs; and

    c) the Transaction includes the sale of the real estate which the Receiver understands may potentially be redeveloped into a bio-mass facility which will not only potentially benefit the community but will avoid a potential abandonment of the real property.

76. The Receiver will continue to pursue the sale of the Excluded Assets, including certain capital stock and the Mill Yard Wood, and will continue to pursue available property tax refunds or other tax refunds and potentially pursue other claims of the estate.

77. For the foregoing reasons, the Receiver respectfully recommends that this Court grant an order:

    (a) approving the Transaction contemplated by the Sale Agreement;

    (b) vesting in the Purchaser the right, title and interest, if any, of the Company and the Receiver in and to the Purchased Assets described in the Sale Agreement;

    (c) authorizing and directing the Receiver to, on the Company's behalf, terminate the employment of the Employees effective at 11:59 p.m. on the day immediately preceding the Closing Date, by sending to each Employee on the Company's behalf written notice of termination by registered mail to the last known address of such Employee based on the books and records of the Company;

(d) declaring that the employment of each Employee be and is hereby deemed to be terminated effective at 11:59 p.m. on the day immediately preceding the Closing Date, whether or not such employee receives written notice of termination before the Closing Date or at all;

(e) if necessary, directing and declaring that the OPA Agreement be deemed to be released, quit-claimed, assigned, transferred and set over to the Purchaser by the Limited Partnership and the General Partner, without compensation, liability or obligation on the part of the Purchaser to the Limited Partnership or the General Partner, but subject to any rights of consent or approval of the Ontario Power Authority set out in the OPA Agreement;

(f) if necessary as described below, directing the General Partner as the general partner of the Limited Partnership to forthwith produce to the Receiver a true copy of all partnership agreement(s) and other constating, management or governing documents and agreement(s) relating to the Limited Partnership, the limited partnership units in the Limited Partnership held by the Debtor, and the general partnership units in the Limited Partnership held by the General Partner, including all amendments to such documents and agreements, any power of attorney granted to the General Partner, the record of limited partners, the record of the General Partner and copies of all minutes of meetings and resolutions of the partners of the Limited Partnership, the General Partner, the board of directors and any committee of the board of directors of the General Partner to the extent pertaining to the Limited Partnership;

(g) directing that Confidential Appendix "I" to this Second Report remain confidential and subject to a protective order of the Court and that it not form part of the permanent court record except by further order of this Court made on notice to the Receiver, IFP, and the Purchaser; and

(h) approving this Second Report, and the conduct and activities of the Receiver as described herein,

all substantially in the form of the draft orders included with the Receiver's Motion Record.

All of which is respectfully submitted this 20th day of March, 2012.

**ERNST & YOUNG INC.**
**in its capacity as Court Appointed Receiver and Receiver and Manager of St. Mary's Paper Corp.**

Per:

Alex Morrison
Senior Vice President

Simone Carvalho
Vice President

# TAB D

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

**ONTARIO**
**SUPERIOR COURT OF JUSTICE**
**(COMMERCIAL LIST)**

BETWEEN:

**INTERNATIONAL FOREST PRODUCTS LLC (formerly known as 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**

## RECEIVER'S CERTIFICATE

## RECITALS

A. Pursuant to an Order of the Honourable Justice Campbell of the Ontario Superior Court of Justice (the "**Court**") dated December 29, 2012, Ernst & Young Inc. was appointed as the receiver and receiver and manager (the "**Receiver**") of the undertaking, property and assets of St. Marys Paper Corp. (the "**Debtor**").

B. Pursuant to an Order of the Court dated March 26, 2012, the Court approved the agreement of purchase and sale made as of March 15, 2012 (the "**Sale Agreement**") between St. Marys Paper Corp., by Ernst & Young Inc., solely in its capacity as court-appointed receiver and receiver and manager and not in its personal or corporate capacity, as Seller, and 2319839 Ontario Inc., as Purchaser (the "**Purchaser**") and provided for the vesting in the Purchaser of the Debtor's and the Receiver's right, title and interest in and to the Purchased Assets, which vesting is to be effective with respect to the Purchased Assets upon the delivery by the Receiver to the Purchaser of a certificate confirming (i) the payment by the Purchaser of the Purchase Price for the Purchased Assets; (ii) that the conditions to Closing as set out in section 9.1 of the Sale Agreement have been satisfied or waived by the Seller; and (iii) the Transaction has been completed to the satisfaction of the Receiver.

C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Sale Agreement.

 

**THE RECEIVER CERTIFIES** the following:

1. The Purchaser has paid and the Seller has received the Purchase Price for the Purchased Assets payable on the Closing Date pursuant to the Sale Agreement;

2. The conditions to Closing as set out in section 9.1 of the Sale Agreement have been satisfied or waived by the Seller; and

3. The Transaction has been completed to the satisfaction of the Receiver.

4. This Certificate was delivered by the Receiver at 7:45 P.M. on April 10, 2012.

**ERNST & YOUNG INC., in its capacity as Receiver of the undertaking, property and assets of St. Marys Paper Corp., and not in its personal capacity**

Per: ______________________

Name: Alex Morrison

Title: Senior Vice President

# TAB E

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

**ONTARIO**
**SUPERIOR COURT OF JUSTICE**
**COMMERCIAL LIST**

BETWEEN:

**INTERNATIONAL FOREST PRODUCTS LLC**
**(formerly known as 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**

**FIRST REPORT OF THE RECEIVER OF ST. MARYS PAPER CORP.**
**DATED JANUARY 13, 2012**

## INTRODUCTION

1. Pursuant to the Order of this Court dated December 29, 2011, upon the application of International Forest Products LLC (formerly known as International Forest Products Corporation) ("**IFP**"), on December 30, 2011 Ernst & Young Inc. ("**EYI**") was appointed as the receiver and receiver and manager (the "**Receiver**") of all of the assets, undertakings and properties of St. Marys Paper Corp. ("**St. Marys**" or the "**Company**") acquired for, or used in relation to the Company's business, including all proceeds thereof (the "**Property**") pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**") and section 101 of the *Courts of Justice Act*, R.S.O 1990 c C.43, as amended (the "**Appointment Order**") . A copy of the Appointment Order is attached hereto as Appendix "A".

2. The Appointment Order authorized the Receiver to, among other things to:

i) take possession of and exercise control over the Property and any and all proceeds, receipts, and disbursements arising out of, or from, the Property;

ii) market the Property, including advertising and soliciting offers in respect of the Property and negotiating terms and conditions that the Receiver deems appropriate;

iii) sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business:

a. without the approval of this Court in respect of any transaction not exceeding $250,000, provided that the aggregate consideration for all such transactions does not exceed $1,000,000; and

b. with the approval of this Court in respect of any transaction in which the purchase price, or the aggregate purchase price, exceeds the applicable amounts set out above; and

iv) apply for any vesting order or other orders necessary to convey the Property to a purchaser free and clear of any liens or encumbrances affecting such Property.

3. On January 1, 2012, International Forest Products Corporation changed its name to International Forest Products LLC.

**PURPOSE**

4. The purpose of this First Report of the Receiver (the "**First Report**") is to report to this Court with respect to:

i) a summary of the activities of the Receiver to date;

ii) the funding of the receivership; and

iii) the Receiver's motion for an Order:

a. approving a sales process proposed by the Receiver (the "**Sales Process**") as set out in Schedule "A" to the draft Order (the "**Sales Process Protocol**");

b. authorizing the Receiver to commence and carry out the Sales Process substantially in accordance with the Sales Process Protocol and to take such steps as are considered necessary or desirable in carrying out the terms of the Sales Process Protocol;

c. directing that the Receiver may seek advice and directions from the Court in respect of any aspect of the Sales Process Protocol;

d. approving the proposed Key Employee Retention Program (the "**KERP**") with respect to two key individuals of the Company which the Receiver requests remain confidential and, subject to a protective order of this Court, and shall not form part of the permanent Court record except by further order of this Court made on notice to the Receiver and IFP; and

e. approving the First Report, and the conduct and activities of the Receiver as described herein.

**TERMS OF REFERENCE**

5. In preparing this First Report, the Receiver has been provided with and in making the comments herein relied upon, unaudited financial information, the Company's books and records, financial information prepared by the Company, and discussions with management of St. Marys. The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Receiver expresses no opinion or other form of assurance in respect of such information contained in this First Report.

6. Unless otherwise stated all monetary amounts contained herein are expressed in Canadian Dollars.

7. Capitalized terms not defined in this First Report are defined in the Appointment Order.

**BACKGROUND**

8. 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. Prior to March 2011 St. Marys operated a groundwood pulp and super calendar specialty paper mill (the "**Mill**") producing paper grades used mainly by magazine publishers and retailing companies for high quality advertising inserts, flyers and catalogues. St. Marys has been in operation for over 100 years.

9. In March 2011, St. Marys was forced to shut down the Mill as a result of an unexpected mechanical issue on its largest paper machine. This paper machine provides more than half of its annual output capacity. St. Marys has addressed the mechanical issue, however, due to weaker market conditions, St. Marys decided not to restart the Mill until market conditions improved.

10. Due to the shortage of funds, St. Marys management determined that the Mill should be preserved in a 'cold idle' state until market conditions improved. Accordingly, a process was commenced to winterize the Mill and prepare it for a 'cold idle' shutdown.

11. As a result of the shutdown of the Mill, St. Marys experienced financial difficulties and a significant liquidity crisis. In addition, St. Marys was unable to secure insurance coverage for the Mill and its operations resulting in the appointment of the Receiver effective December 30, 2011.

12. Further background with respect to these proceedings and IFP's application for the appointment of the Receiver is set out in the affidavits of Daniel Moore of IFP which were filed with the Court and are attached (without the Exhibits thereto) at Appendix "B" to this First Report. As noted below, copies of the full affidavits are available on the website maintained by the Receiver for these proceedings, www.ey.com/ca/smp.

**SUMMARY OF THE ACTIVITIES OF THE RECEIVER**

13. As described above, the Mill is currently not operating primarily due to weak market conditions.

14. Among other things, since its appointment the Receiver took the following steps in conjunction with its mandate:

a) advised the Company of the appointment of the Receiver and its impact on the Company's operations;

b) notified Royal Bank to freeze the Company's bank accounts and opened a Receiver's bank account;

c) obtained insurance coverage for the Mill given that the Company's insurance coverage terminated on December 31, 2011. The Receiver obtained insurance commencing on the date of the Receivership for the Mill located at 75 Huron Street and the Company's warehouse located at 488 Gran Street (the "**Warehouse**") at a monthly premium cost of approximately $18,400. The insurance coverage limits for the Mill and Warehouse include property insurance coverage of $20 million after a deductible for direct damage of $500,000 for the Mill and property insurance coverage of $3 million after a deductible for direct damage of $25,000 for the Warehouse, boiler and machinery combined coverage of $25 million after a deductible of $2,500 (excluding production machinery), and liability limits of $10 million per occurrence and $28 million in aggregate;

d) photographed certain items at the Mill and changed the locks at the Mill and the Warehouse;

e) worked with certain employees of St. Marys to assess the status of the winterization of the Mill and understand the remaining activities and costs to complete the winterization of the Mill;

f) prepared and provided to all known St. Marys creditors a copy of the Receiver's Section 245 and 246 reports pursuant to the requirements of the BIA;

g) posted the Appointment Order and other court documents on a website, www.ey.com/ca/smp maintained by the Receiver;

h) set up a toll-free number, 1-855-294-9737, for creditors and other interested parties to contact the Receiver;

i) dealt with creditor inquiries relating to St. Marys non-payment of liabilities incurred prior to the Appointment Order;

j) prepared a preliminary cash flow statement (the "**Cash Flow Statement**") to March 2, 2012 in support of securing the amount of funding required from IFP in order to continue operations and conduct a sales process for the Property;

k) developed the Sales Process Protocol as discussed further below;

l) developed the KERP Agreements as discussed below;

m) attended calls with the Ontario Ministry of Natural Resources with respect to the Receivership proceedings; and

n) toured the Mill with the Ministry of the Environment (the "**MOE**") and the City of Sault Ste. Marie (the "**City**").

15. The Receiver is working towards compiling information required for the Sales Process. The Receiver has been contacted by a number of parties interested in purchasing all or some of the Property. These parties will be included in a potential buyers' list that the Receiver is compiling as contemplated in the Sales Process Protocol.

**FUNDING OF THE RECEIVERSHIP**

16. As described above, the Receiver advised Royal Bank to freeze the Company's bank accounts and the Receiver opened a separate bank account, following which the Receiver

requested that Royal Bank transfer the funds in the Company's account to the Receiver's account. As a result of this transfer, the Receiver received approximately $84,600 in Canadian currency and approximately $14,900 in U.S. currency.

17. In order to fund the ongoing holding costs of the Mill (including insurance, security and other staff, electricity, etc) and to finance the receivership and the Sales Process, the Receiver requested funding from IFP. IFP has agreed to provide limited funding to the Receiver while the Receiver carries out the proposed Sales Process. Funding will be provided to the Receiver pursuant to Receiver's Certificates issued by the Receiver as described in the Appointment Order.

18. To date, the Receiver has issued its first Receiver's Certificate in the amount of $470,000 to fund these Receivership proceedings until the end of January 2012, at an annual interest rate of 18% (the "**First Receiver's Certificate**"). A copy of the First Receiver's Certificate is attached as Appendix "C" to this First Report.

**THE SALES PROCESS**

19. Prior to the appointment of the Receiver, the Company was in the process of attempting to secure an investor in St. Marys or a buyer of the Mill.

20. The Receiver is hopeful that a going concern buyer can be found for the Mill. However, given the limited funding, the limited financial resources in the estate and the challenges of the industry, the Receiver will canvass both going concern and liquidation offers for the Property. As such, the Receiver has developed a proposed Sales Process to market the Property to parties who may wish to operate the Property as a going concern, or to decommission and liquidate the plant and equipment and/or other property of St. Marys. The detailed Sales Process Protocol is attached both as Appendix "A" to the draft order and Appendix "D" to this First Report.

21. As described above, the Receiver has been contacted by a number of parties who have expressed an interest in acquiring some or all of the Property. The Receiver is compiling

a list of potential interested parties including parties who have made similar acquisitions and known parties in the industry as well as decommissioning and liquidating companies.

22. Certain significant proposed timelines related to the Sales Process are noted below:

| **Activity** | **Timeline** |
|---|---|
| Newspaper advertisements | January 23, 2012 |
| Data room established | January 20, 2012 |
| Submission of non-binding letters of intent | January 30, 2012 |
| Submission of offers | February 10, 2012 |
| Waiving of all conditions related to the sale | February 21, 2012 |
| Court approval of the accepted offer | February 29, 2012 |
| Closing of the sale | March 2, 2012 |

23. Due to the relatively short timeline contemplated in the Sales Process Protocol, the Receiver is responding to questions and inquiries from interested parties who contacted the Receiver. Further, the Receiver is approaching parties who may be interested in purchasing all or some of the Property.

24. The Receiver shall report to this Court with respect to the outcome of the Sales Process and shall seek the approval of this Court of any final sale agreement or agreements arising out of the Sales Process. If necessary, the Receiver will also seek the advice and direction of this Court with respect to the Sales Process.

**THE KEY EMPLOYEE RETENTION PLAN**

25. As described above, the Receiver is contemplating a Sales Process with a relatively short timeline in order to sell the Property. Further, the Receiver, with the assistance of certain employees, is working towards assessing the status of the winterization of the Mill and determining the remaining activities and costs to complete the process of winterizing the Mill. In order to effectively manage the Sales Process and the winterization of the Mill, the Receiver requires the assistance of two key employees (the "**Key Employees**") of the Company who previously worked on winterization activities and previous attempts to sell the Mill.

26. In order to retain the Key Employees as employees of the Company until the completion of the Sales Process, the Receiver is proposing the payment of an incentive bonus to the Key Employees based on the achievement of a pre-determined outcome related to the Sales Process. The incentive bonus will be paid to each of the Key Employees in the event that IFP is paid all amounts owing to it by the Receiver and St. Marys. Further, the incentive bonus will be paid only if the Key Employees agree to remain employees of St. Marys until a week after the completion of the Sales Process and certain other terms which will be set out in the Key Employee Retention Program Agreements (the "**KERP Agreements**"). The Receiver is in the process of finalizing the terms of the KERP with the Key Employees, which will be brought forward to the Court in advance of the hearing once finalized.

27. A copy of the proposed KERP Agreements will be brought forward to the Court in confidential Appendix "E" to this First Report. Due to the personal and confidential nature of the information contained in the KERP Agreements, the Receiver is seeking a protective order with respect to Appendix "E" to this First Report such that they remain confidential and not form part of the permanent Court record except by further Order of this Court made on notice to the Receiver and IFP. Accordingly, Appendix "E" is not attached to this First Report and has been filed with the Court in a separate sealed envelope.

28. The Receiver has discussed the proposed KERP with IFP who had indicated that it is not opposed to the KERP.

**RECOMMENDATIONS**

29. The Receiver respectfully recommends that this Court grant an order:

    i) approving the Sales Process and the Sales Process Protocol as set out in Schedule "A" to the draft Order;

    ii) approving the KERP Agreements subject to a protective order with respect to confidential Appendix "E" to this First Report; and

    iii) approving this First Report and the conduct and activities of the Receiver as described herein,

all substantially in the form of the draft Order attached at Schedule "A" to the Receiver's Notice of Motion.

All of which is respectfully submitted this 13th day of January, 2012.

**ERNST & YOUNG INC.**
**in its capacity as Court Appointed Receiver and**
**Receiver and Manager of St. Mary's Paper Corp.**

Per:

Alex Morrison
Senior Vice President

Simone Carvalho
Vice President

# TAB F

**ERNST & YOUNG INC.**
**COURT-APPOINTED RECEIVER AND MANAGER OF**
**ST. MARY'S PAPER CORP.**
**RECEIVER'S STATEMENT OF RECEIPTS AND DISBURSEMENTS**
**FOR THE PERIOD DECEMBER 30, 2011 TO APRIL 24, 2012**

**Canadian Currency Account:**

| | Note | | Amount |
|---|---|---|---|
| **Receipts:** | | | |
| Funding from IFP through Receiver's Certificates | 1 | $ | 1,045,000 |
| Transfer of funds from St. Marys' Account | 2 | | 84,659 |
| Other Receipts | 3 | | 6,549,570 |
| **Total Receipts** | | | 7,679,229 |
| **Disbursements:** | | | |
| Repayment of Receiver's Certificates with interest | 1 | | 1,083,673 |
| Payroll and payroll related remittances | 4 | | 408,720 |
| Independent Contractor Costs | 5 | | 11,878 |
| Insurance | 6 | | 73,258 |
| Repairs and maintenance of the mill | 7 | | 26,995 |
| Payments to the IESO for electricity | 8 | | 150,801 |
| Other Utilities | 9 | | 18,330 |
| Consulting fees | 10 | | 6,556 |
| Pre-receivership advisory services | 11 | | 39,965 |
| Legal Counsel fees and disbursements | 12 | | 117,497 |
| Receiver's fees and disbursements | 13 | | 454,319 |
| Miscellaneous expenses | 14 | | 502 |
| Registrar's fees | 15 | | 70 |
| HST Paid | 16 | | 85,222 |
| Transfer to U.S. Account | 17 | | 16,327 |
| **Total Disbursements** | | | 2,494,113 |
| **Remaining funds available in Canadian Currency** | | $ | 5,185,116 |

**U.S. Currency Account:**

| | Note | | Amount |
|---|---|---|---|
| **Receipts:** | | | |
| Transfer of funds from St. Marys' Account | 2 | $ | 14,939 |
| Transfer from CDN Account | 17 | | 16,409 |
| Other Receipts | 3 | | 9,415 |
| **Total Receipts** | | | 40,762 |
| **Disbursements:** | | | |
| Bank Charges | | | 51 |
| **Remaining funds available in U.S. Currency** | | $ | 40,712 |

**In the Matter of the Receivership of St Mary's Paper Corp. ("St. Marys").**
**Notes to the Statement of Receipts and Disbursements as of April 24, 2012.**

Actual receipts and disbursements are denominated in Canadian dollars. The following receipts and disbursements relate to the period from the commencement of the receivership on December 30, 2012 until April 24, 2012.

1) **Funding from IFP through Receiver's Certificates:**
As discussed in the Second Report, IFP agreed to provide limited funding to the Receiver while the Receiver carries out the Sales Process. Funding was provided to the Receiver pursuant to Receiver's Certificates issued by the Receiver as described in the Appointment Order. Pursuant to the Appointment Order, the Receiver borrowed $1,045,000 through three Receiver's Certificates.

   On April 20, 2012, the Receiver repaid to IFP the total principal borrowed of $1,045,000 along with interest of $38,672.95.

2) **Transfer of funds from St. Marys' account:**
Pursuant to the Receivership Order, as discussed in the First Report, the Receiver advised Royal Bank to freeze the Company's bank accounts and the Receiver opened a separate bank account, following which the Receiver requested that Royal Bank transfer the funds in the Company's account to the Receiver's account. As a result of this transfer, the Receiver received approximately $84,659 in Canadian currency and approximately $14,939 in U.S. currency.

3) **Other receipts:**
Other receipts include proceeds from the sale of the paper mill (net of adjustments) as described in detail in the second report, HST refunds, funds received from certain settlements as described in the Second Report, net foreign exchange gains and certain miscellaneous receipts and reimbursements of amounts paid on behalf of SMP Resources Inc.

4) **Payroll and payroll related remittances:**
Payroll includes salaries to remaining management and staff needed for the ongoing security and preservation of the assets at the mill as well as book keeping and human resources related activities. Eight persons provide 24/7 security of the mill. Persons on security shifts also assist with tasks to maintain the Mill in a cold idle state.

   Other payroll costs include pension payments to the employees' defined contribution pension plan, source deductions, WSIB and EHT.

5) **Independent Contractor Costs:**
These costs relate to payments to independent contractors for services provided by such independent contractors to prepare T4s, records of employment, items related

to the closing of the Transaction and assisting with the sale of the remaining assets of St. Marys.

6) **Insurance:**
Insurance includes premium costs with respect to property insurance related to the Mill and a warehouse. Property insurance includes monthly premiums of approximately $19,000.

After the closing of the Transaction, the Receiver terminated the insurance related to the paper mill and has continued insurance with respect to SMP Resources warehouse building.

7) **Repairs and maintenance of the Mill:**
Repairs and maintenance include costs related to general repairs and maintenance and costs related to maintaining the Mill in a cold idle state and include activities related to draining water, oil and other fluids, testing chemicals for freezing based on certain temperatures (external persons required), moving certain chemicals and other items to the heated warehouse at Gran Street for storage during the winter months, etc. In addition, certain additional security measures were put in place following a break-in at the Mill as described in the Second Report.

8) **Payments to the IESO for electricity:**
These costs represent payments for electricity used in the mill and the office building. The mill had limited lights and limited heating in areas with electrical equipment. The office building has lights and heating. Electricity costs are approximately $50,000 a month (paid bi-weekly). IESO has been advised of the closing of the Transaction. IESO has advised that it needs until mid-May to provide its final billing for electricity costs related to the period prior to the closing of the Transaction.

9) **Other utilities:**
Other utilities include costs for telephone, internet, cell phones, and other service provider charges related to meters for utilities. Final bills will be provided by the utility providers up to the period prior to the closing of the Transaction.

10) **Consulting fees:**
Consulting fees include costs for certain I.T. services and the electronic data room for the Sales Process.

11) **Pre-receivership advisory services:**
These costs relate professional fees for the period prior to December 30, 2011.

12) **Legal Counsel fees and disbursements:**
These costs relate to professional fees and disbursements of the Receiver's legal counsel with respect to the receivership proceedings.

13) **Receiver's fees and disbursements:**
These costs relate to professional fees and disbursements of the Receiver with respect to the receivership proceedings.

14) **Miscellaneous expenses:**
Miscellaneous expenses relate to purchases of general office and other supplies.

15) **Registrar's fees:**
These costs represent regulatory costs with respect to the receivership proceedings.

16) **HST Paid:**
This line item accumulates HST paid on invoices based on the disbursements described above

17) **Transfers between the U.S. and Canadian Currency Accounts:**
These transfers relate to transfer between the U.S. and Canadian currency account for disbursements.

# TAB G

Court File No. 25697/11

*ONTARIO*
**SUPERIOR COURT OF JUSTICE**

IN THE MATTER OF the *Construction Lien Act*, R.S.O. 1990, c. C 30, as amended

B E T W E E N:

**AECOM CANADA LTD.**

Plaintiff

- and -

**ST. MARYS PAPER CORP., and**
**ST. MARYS RENEWABLE ENERGY CORP.**

Defendants

# STATEMENT OF CLAIM

**TO THE DEFENDANTS:**

**A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU** by the Plaintiff. The claim made against you is set out in the following pages.

**IF YOU WISH TO DEFEND THIS PROCEEDING,** you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the Rules of Civil Procedure, serve it on the plaintiff's lawyer or, where the plaintiff does not have a lawyer, serve it on the plaintiff, and file it, with proof of service in this court office **WITHIN TWENTY DAYS** after this statement of claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America the period for serving and filing your statement of defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

**IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU.**

If you wish to defend this proceeding but are unable to pay legal fees, legal aid may be available to you by contacting a local Legal Aid Office.

IF YOU PAY THE PLAINTIFF'S CLAIM, and $750.00 for costs, within the time for serving and filing your statement of defence you may move to have this proceeding dismissed by the court. If you believe the amount claimed for costs is excessive, you may pay the plaintiff's claim and $100 for costs and have the costs assessed by the court.

DATE: December 13, 2011 Issued by: Laurie Jokelainen

Local Registrar
426 Queen Street, East
Sault Ste. Marie, ON
P6A 6W2

TO: **ST. MARYS PAPER CORP.**
75 Huron Street
Sault Ste. Marie, ON
P6A 5P9

AND TO: **ST. MARYS RENEWABLE ENERGY CORP.**
390 Bay Street
Sault Ste. Marie, ON
P6A 1X2

## CLAIM

1. THE PLAINTIFF CLAIMS:

(a) payment of the sum of $130,149.00;

(b) pre-judgment and post-judgment interest in accordance with the provisions of the *Courts of Justice Act*;

(c) costs of this action, on a substantial indemnity basis;

(d) that in default of payment of the said sum of $130,149.00 and costs, all the estate and interest of the defendant in the lands and premises to which the lien hereinafter described attaches, and which are the subject matter of this action be sold and the proceeds applied towards the payment of the plaintiff's claim aforesaid pursuant to the provisions of the *Construction Lien Act*, R.S.O. 1990, c. C.30, as amended (the "Act");

(e) for all purposes aforesaid and for all other purposes, that all proper directions be given, inquiries made and accounts taken; and

(f) such further and other relief as to this Honourable Court may seem just.

2. The plaintiff, AECOM Canada Ltd. ("AECOM"), is incorporated pursuant to the laws of the Province of British Columbia and is extra-provincially registered to carry on business in Ontario. AECOM carries on business providing engineering, architecture and related consulting services.

3. The defendants St. Marys Paper Corp. ("SMP") and St. Marys Renewable Energy Corp. ("SMREC") are each incorporated pursuant to the laws of Ontario, are related or affiliated companies, and carry on business in the City of Sault Ste. Marie. SMP is the owner of the real property to which the construction lien hereinafter described attaches

(the "Premises"). The defendant SMREC occupies the Premises pursuant to a lease between it and SMP.

4. On or about February 1, 2011 AECOM entered into a contract with SMREC whereby AECOM agreed to prepare reports, drawings and specifications and carry out related activities in support of the issuance to SMREC of a Renewable Energy Approval under *Environmental Protection Act*, which would permit the Premises to be redeveloped and used as a Biomass Combined Heat and Power facility. The contract price was $248,500.00 inclusive of applicable taxes.

5. AECOM carried out the necessary work for the preparation of the reports, drawings and specifications, and performed related work necessary in the process of seeking or obtaining the Renewable Energy Approval, between February 1, 2011 and September 27, 2011.

6. Of the original contract price, the sum of $130,149.00 remains outstanding and unpaid.

7. By reason of having carried out the work described above and thereby adding value to the Premises, AECOM is entitled to a lien on the defendants' interest in the Premises, in the amount of $130,149.00, together with costs of this action, pursuant to the provisions of the Act.

8. On the 8th day of November, 2011, AECOM caused to be registered in the Land Registry Office for the Land Titles Division of Algoma (No. 1) as Instrument No. AL94715 a claim for lien in the words and figures as follows:

**Name of Lien Claimant:** AECOM Canada Ltd.

**Address for Service:** 300 Town Centre Boulevard, Suite 300, Markham, ON L3R 5Z6

**Name of Owner:** St. Marys Paper Corp.

**Address:** 75 Huron Street, Sault Ste. Marie, ON P6A 5P9

**Name of person to whom lien claimant supplied services or materials:**

St. Marys Renewable Energy Corp.

**Address:** 390 Bay Street, Sault Ste. Marie, ON P6A 1X2

**Time within which services or materials were supplied:**

February 1, 2011 – September 27, 2011

**Short Description of services or materials that have been supplied:**

Preparation of reports and related activities for issuance of Renewable Energy Approval under Environmental Protection Act

**Contract price or subcontract price:**

$248,500.00

**Amount claimed as owing in respect of services or materials that have been supplied:**

$130,149.00

Description of premises:

PIN: 31577 - 0009 LT

Description: PCL 561 SEC AWS; PT LAND & LAND COVERED WITH WATER SAULT STE. MARIE; PT ST. MARY'S ISLAND SAULT STE. MARIE; PT THE LAIRD & HENDERSON MILL SITE SAULT STE. MARIE PT 9 & 10 1R5861; S/T LT57299; SAULT STE. MARIE

Address: SAULT STE. MARIE

| | |
|---|---|
| PIN: | 31577 - 0012 LT |
| Description: | PT THE LAIRD & HENDERSON MILL SITE SAULT STE. MARIE; PT HUDSON'S BAY COMPANY'S LANDS S/S PORTAGE ST PL TOWN PLOT OF SAULT STE. MARIE PT 15, 16 1R5861 S/T RIGHT AS IN T218158; S/T T454942; SAULT STE. MARIE |
| Address: | SAULT STE. MARIE |
| PIN: | 31577 - 0014 LT |
| Description: | PT THE LAIRD & HENDERSON MILL SITE SAULT STE. MARIE PT 18 1R5861 ; SAULT STE. MARIE |
| Address: | SAULT STE. MARIE |
| PIN: | 31577-0015 LT |
| Description: | PT ST. MARY'S ISLAND SAULT STE. MARIE PT 19 1R5861 ; SAULT STE. MARIE |
| Address: | SAULT STE. MARIE |
| PIN: | 31577-0016 LT |
| Description: | PT ST. MARY'S ISLAND SAULT STE. MARIE PT 20 1R5861 ; SAULT STE. MARIE |
| Address: | SAULT STE. MARIE |
| PIN: | 31577 - 0026 LT |
| Description: | PCL 11524 SEC AWS; PT WATER LT ADJACENT TO ST. MARY'S ISLAND SAULT STE. MARIE PT 1, 2 1R7289; SAULT STE. MARIE |
| Address: | SAULT STE. MARIE |
| PIN: | 31577 - 0027 LT |
| Description: | PCL 10280 SEC AWS; PT WATER LT AT THE FT OF THE RAPIDS IN ST MARY'S RIVER SAULT STE. MARIE PT 3 1R4409; SAULT STE. MARIE |
| Address: | SAULT STE. MARIE |

| | |
|---|---|
| PIN: | 31577 - 0033 LT |
| Description: | PCL 1023 SEC AWS; PT LAND & LAND COVERED WITH WATER AT THE FT OF RAPIDS ON ST. MARY'S RIVER SAULT STE. MARIE PT 2, 3 1R5861; S/T LT57299; SAULT STE. MARIE |
| Address: | SAULT STE. MARIE |
| PIN: | 31577 - 0034 LT |
| Description: | PCL 1023 SEC AWS; PT LAND & LAND COVERED WITH WATER AT THE FT OF RAPIDS ON ST. MARY'S RIVER SAULT STE. MARIE PT 4 1R5861 ; SAULT STE. MARIE |
| Address: | SAULT STE. MARIE |
| PIN: | 31577 - 0037 LT |
| Description: | PCL 564 SEC AWS; PT LAND & LAND COVERED WITH WATER SAULT STE. MARIE PT 12 1R5861; SAULT STE. MARIE |
| Address: | SAULT STE. MARIE |
| PIN: | 31577 - 0038 LT |
| Description: | PCL 648 SEC AWS; PT LAND & LAND COVERED WITH WATER SAULT STE. MARIE PT 13 1R5861; SAULT STE. MARIE |
| Address: | SAULT STE. MARIE |
| PIN: | 31577 - 0039 LT |
| Description: | PCL 881 SEC AWS; PT LAND & LAND COVERED WITH WATER SAULT STE. MARIE PT 11 1R5861; SAULT STE. MARIE |
| Address: | SAULT STE. MARIE |

9. The lands described in the claim for lien hereinbefore set forth were at all material times owned by SMP and were at all material times occupied by SMP and/or SMREC, which are related or affiliated corporations, and are the lands to which AECOM had supplied materials on behalf of and for the direct benefit of the defendants and, accordingly, the defendants are and were owners within the meaning of s. 1 of the Act.

10. By reason of the furnishing of its labour, material and services to the Premises, AECOM has enhanced the value of the Premises. The defendants have received the benefit of same and have been unjustly enriched in the amount of $130,149.00 at the expense of, and to the detriment of, AECOM.

The plaintiff proposes that this action be tried at the City of Sault Ste. Marie, in the District of Algoma.

DATE:

**JOHNSTON • MONTGOMERY**
Barristers and Solicitors
201 Byron Street South
Whitby, ON L1N 4P7

John W. Montgomery
LSUC No.: 31984Q
Tel: (905) 666-2252
Fax: (905) 430-0878

Lawyers for the Plaintiff

112

Court File No. 25697/11

| | | |
|---|---|---|
| AECOM CANADA LTD. | v. | ST. MARYS PAPER CORP., and ST. MARYS RENEWABLE ENERGY CORP. |
| Plaintiff | | Defendants |

ONTARIO
SUPERIOR COURT OF JUSTICE

PROCEEDINGS COMMENCED AT
SAULT STE. MARIE

# STATEMENT OF CLAIM

**JOHNSTON • MONTGOMERY**
Barristers and Solicitors
201 Byron Street South
Whitby, ON L1N 4P7

John W. Montgomery
LSUC#31984Q
Tel: (905) 666-2252
Fax: (905) 430-0878

Lawyers for the Plaintiff,
AECOM Canada Ltd.

# TAB H

# DIRECTION & AUTHORIZATION

**TO:** **Wishart Law Firm LLLP**
**Attention: Gordon P. Acton**

**AND TO:** **The Corporation Of The City Of Sault Ste. Marie**

**FROM:** **St. Marys Paper Corp.**

**RE:** **In the matter of Section 40 of the *Assessment Act*, as amended (the "Act"), and in the matter of complaints with respect to taxation years 2006, 2007 and 2008 with respect to property known as 75 Huron St., Sault Ste. Marie, Ontario.**
**Taxing Authority: The Corporation of the City of Sault Ste. Marie**
**Roll Number: 5761 040 031 107 00 0000**
**Complaint Numbers:1819104, 1930751, 1987038**

WHEREAS St. Marys Paper Corp. is the Complainant in the above referenced Tax Assessment Appeal the hearing of which was concluded May 13th, 2011;

AND WHEREAS St. Marys Paper Corp. expects a favourable decision and refund of taxes paid;

NOW THEREFORE, St. Marys Paper Corp. hereby irrevocably authorizes and directs that from the refund of taxes received the sum of Sixty Nine Thousand Two Hundred Two Dollars and Ninety Five Cents ($69,202.95) be paid to McCague Borlack LLP

And for so doing this will be your good and sufficient authority.

DATED this 4 day of August, 2011

ST. MARYS PAPER CORP.
Per:

Dennis Bunnell, Chief Executive Officer

I have authority to bind the Corporation

Court File No. CV-11-428497

*ONTARIO*
**SUPERIOR COURT OF JUSTICE**

BETWEEN:

P.S. JOHNSON VALUATION CONSULTANTS LTD.
and P.S. JOHNSON LEGAL SERVICES PROFESSIONAL CORPORATION

Plaintiffs

- and -

ST. MARYS PAPER CORP.

Defendant

**STATEMENT OF CLAIM**

TO THE DEFENDANT:

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the plaintiffs. The claim made against you is set out in the following pages.

IF YOU WISH TO DEFEND THIS PROCEEDING, you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the Rules of Civil Procedure, serve it on the plaintiffs' lawyer or, where the plaintiffs do not have a lawyer, serve it on the plaintiffs, and file it, with proof of service in this court office, WITHIN TWENTY DAYS after this statement of claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your statement of defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

Instead of serving and filing a statement of defence, you may serve and file a notice of intent to defend in Form 18B prescribed by the Rules of Civil Procedure. This will entitle you to ten more days within which to serve and file your statement of defence.

IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU.

If you wish to defend this proceeding but are unable to pay legal fees, legal aid may be available to you by contacting a local legal aid office.

IF YOU PAY THE PLAINTIFFS' CLAIM, and $10,000.00 for costs, within the time for serving and filing your statement of defence you may move to have this proceeding dismissed by the court. If you believe the amount claimed for costs is excessive, you may pay the plaintiffs' claim and $400 for costs and have the costs assessed by the court.

Date June 13, 2011

Issued by
Local registrar

Address of court office: 393 University Avenue
10th Floor
Toronto, ON M5G 1E6

TO: ST. MARYS PAPER CORP.
75 Huron Street
Sault Ste Marie, ON
P6A 5P9

THIS ACTION IS BROUGHT AGAINST YOU UNDER THE SIMPLIFIED PROCEDURE PROVIDED IN RULE 76 OF THE *RULES OF CIVIL PROCEDURE* (ONTARIO).

## CLAIM

1. The Plaintiffs' claim is for:

   (a) The sum of $69,202.95 CAD for monies due and owing and breach of contract;

   (b) Pre-judgment and post-judgment interest on the aforesaid sum in accordance with the terms of the agreement or in the alternative in accordance with the Courts *of Justice Act*, R.S.O. 1990, c.C-54, as amended;

   (c) HST, GST or PST as may apply in the circumstances;

   (d) Costs on a substantial indemnity scale; and

   (e) Such further and other relief as counsel may advise and as this court may permit.

2. The Plaintiffs are incorporated under the laws of Ontario, and among other things, provide realty tax consulting services. In May 2008, P.S. Johnson Legal Services Professional Corporation ("Legal Services") was incorporated to assume paralegal services conducted by P.S. Johnson Valuation Consultants Ltd. ("Valuation Consultants") pursuant to the changes made under Ontario law.

3. St. Marys Paper Corp. is a privately owned company and incorporated under the laws of Ontario. Its head office is located in the City of Sault Ste Marie, Ontario.

4. In or about September 2007, Valuation Consultants was retained by the Defendant to assist in changes to Appeal and Municipal Taxation documentation, the review of MPAC's recent Automated Cost System costings, and the valuation and Appeal process going forward in connection with the Defendant's property located in the City of Sault Ste Marie. Valuation Consultants had provided similar services to the Defendant's previous owner, St. Marys Paper Ltd., since 1994. At all material times it was understood and agreed that service provided by Valuation Consultant's senior consultants would be billed at $300 per hour plus out of pocket expenses and appropriate taxes.

5. In May 2008, the Defendant and Legal Services agreed to be bound by the same terms and conditions that governed the relationship between the Defendant and Valuation Services.

6. On June 23, 2010, Legal Services delivered its Statement of Account in the amount of $11,625.08 to the Defendant.

7. On June 25, 2010, Valuation Consultants delivered its Statement of Account in the amount of $57,577.87 to the Defendant.

8. The Defendant defaulted in payment and has not made a single payment to the Plaintiffs to date. The Plaintiffs have not waived or varied their rights and the Defendant's obligation to pay the Plaintiffs the amount set out in statements of account described above remains unsatisfied.

9. The Plaintiffs propose that the trial of this action take place in the City of Toronto.

June 17 2011

**McCAGUE BORLACK LLP**
Barristers & Solicitors
130 King Street West,
Suite 1500, P.O. Box 136
Toronto, ON M5X 1C7

**Gary Caplan**
Law Society #19805G
416-860-8096 ☎
416-860-0003 (fax)

Lawyers for the Plaintiffs

Court File No.: CV-11-428497

PS JOHNSON VALUATAION CONSULTANTS LTD. et al
Plaintiffs

v.

ST. MARYS PAPER CORP.
Defendant

*ONTARIO*
**SUPERIOR COURT OF JUSTICE**

PROCEEDINGS COMMENCED AT
**TORONTO**

## STATEMENT OF CLAIM

**McCAGUE BORLACK LLP**
Barristers and Solicitors
The Exchange Tower
130 King Street West, Suite 2700
Toronto, ON M5X 1C7

**Gary M. Caplan**
LSUC No.: 19805G
Tel: 416-860-8096
Fax: 416-860-0003

Lawyers for the Plaintiffs

# TAB I

Barristers & Solicitors

WeirFoulds LLP

April 3, 2012

VIA E-MAIL

**Paul D. Guy**
Partner
T: 416-947-5045
pguy@weirfoulds.com

File 14910.00001

Joe Bellissimo
Cassels Brock & Blackwell LLP
2100 Scotia Plaza
40 King Street West
Toronto, ON
M5H 3C2

Dear Mr. Bellissimo:

**Re: International Forest Products Corp. v. St. Marys Paper Corp.
Court File No. CV-11-9367-00CL**

I understand that the closing of the asset purchase agreement in respect of the St. Marys' assets is scheduled to take place April 4, 2012.

I have instructions from Dennis Bunnell, John Lloyd, Dick O'Brien and the Wishart law firm to commence an action against International Forest Products (IFP) in respect of the affairs of St. Marys leading up to the appointment of the receiver, specifically the actions of IFP in preventing my clients, and my firm, from being paid amounts owing to them by St. Marys.

I expect that the notice of application will be delivered to IFP's lawyers within the next few days, and the complete application record served shortly thereafter. Once the material has been delivered I will be seeking to schedule a 9:30 chambers appointment before Justice Campbell to set a timetable and hearing date.

This letter is notice to the receiver that the application will seek relief in the form, among other things, of an order directing that any amounts payable to my clients by IFP be deducted from any amount payable by the receiver to IFP in respect of IFP's secured claim against the sale proceeds. As such, the receiver should hold back sufficient funds from any distribution to IFP to satisfy such an award. Please confirm that the receiver will holdback $375,000 from any amount payable to IFP to be used to satisfy any award in my clients' favour against IFP, subject to any further of the court.

Barristers & Solicitors

WeirFoulds LLP

If the receiver does not agree to do so I will be seeking to schedule a motion before His Honour on an urgent basis for an order directing the receiver to do so.

Yours truly,

Paul D. Guy

c: Michael McGraw, Blake Cassels & Graydon LLP, counsel to IFP

PDG/mb
4470380.1

Barristers & Solicitors

WeirFoulds LLP

April 4, 2012

Paul D. Guy
Partner
T: 416-947-5045
pguy@weirfoulds.com

File 15053.00001

Joe Bellissimo
Cassels Brock & Blackwell LLP
2100 Scotia Plaza
40 King Street West
Toronto, ON
M5H 3C2

Dear Mr. Bellissimo:

**Re: International Forest Products Corp. v. St. Marys Paper Corp.**
**Court File No. CV-11-9367-00CL**

I write further to my letter of yesterday. I have been advised that there was an error in the calculation of the hold back figure referred to in my letter. The amount my client's require to be held back from any distribution to International Forest Products is $250,000. Please confirm at your earliest convenience that the receiver will hold back this amount, pending further order of the court.

Yours truly,

Paul D. Guy

PDG/mb
c: Michael McGraw, Blake Cassels & Graydon LLP, counsel to IFP

4484561.1

CASSELS BROCK
LAWYERS

April 11, 2012

**By Email**

jbellissimo@casselsbrock.com
tel: 416.860.6572
fax: 416.642.7150
file # 25522-7

Weir Foulds LLP
130 King Street West, Suite 1600
Toronto, Ontario
M5X 1J5

Attention: Paul D Guy.

Dear Mr. Guy:

**Re: Receivership of St. Marys Paper Corp. ("St. Marys")**

I am writing in response to your letters of April 3, 2012 and April 4, 2012.

Your letters referred to an anticipated application being served on counsel for International Forest Products ("IFP"). We are not aware of any such application having been commenced or served, and accordingly would ask that you advise in that regard.

Your letters further note that your clients' request that the Receiver agree to holdback $250,000 from any distribution to IFP to satisfy any "award" to your clients against IFP. I do not see how the Receiver is in a position to provide such a confirmation in the absence of an award or other order of the Court having been made, and without having the particulars of the claims being advanced.

However, I can confirm that the Receiver will not be making any distributions to IFP in absence of an order of the Court approving such a distribution on notice to you, and as such your clients can advance their position with respect to any required holdbacks at the hearing of such a distribution motion by the Receiver.

Yours truly,

Joseph J. Bellissimo

cc: Alex Morrison/Simone Carvalho, Ernst & Young Inc.
cc: Michael McGraw/Marc Flynn, Blake Cassels & Graydon LLP
Legal*7388670.1

CASSELS BROCK
LAWYERS

April 17, 2012

**By Email**

jbellissimo@casselsbrock.com
tel: 416.860.6572
fax: 416.642.7150
file # 25522-7

Weir Foulds LLP
130 King Street West, Suite 1600
Toronto, ON M5X 1J5

Attention: Paul D Guy

Dear Mr. Guy:

**Re: Receivership of St. Marys Paper Corp. ("St. Marys")**

I am writing further to my letter of April 11, 2012.

As described in the Receiver's Second Report to the Court, the Receiver has borrowed from International Forest Products LLC ("IFP") the aggregate principal amount of $1,045,000 under Receiver's Certificates in accordance with the Order of the Honourable Mr. Justice C. Campbell dated December 29, 2011 (the "Appointment Order"). Amounts borrowed under the Receiver's Certificates, including interest and charges thereon, are secured by way of a charge pursuant to paragraph 20 of the Appointment Order.

Given that the borrowing under the Receiver's Certificates accrues interest at an annual interest rate of 18%, the Receiver has decided to fully repay the principal and accrued interest owing under Receiver's Certificates on or before Friday, April 20, 2012 in order to cease the further accrual of interest for the benefit of the St. Marys estate.

However, I can confirm that after repayment of the amounts owing under the Receiver's Certificates, there will be funds in the estate potentially available for distribution to IFP in excess of $250,000 and, as previously advised, the Receiver will not be making any distributions to IFP in absence of an order of the Court approving such a distribution on notice to you.

Yours truly,

Joseph J. Bellissimo

cc: Alex Morrison/Simone Carvalho, Ernst & Young Inc.
cc: Michael McGraw/Marc Flynn, Blake Cassels & Graydon LLP
Legal*7410604.2