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:

<u>**Activity**</u>	<u>**Timeline**</u>
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

Alex Morrison
Senior Vice President

Simone Carvalho
Vice President

APPENDIX “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.

45

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 29 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
Applicant

- and -

ST.MARYS PAPER CORP.
Respondent

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding Commenced at Toronto

RECEIVERSHIP ORDER

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Lawyers for the Applicants

APPENDIX "B"

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

INTERNATIONAL FOREST PRODUCTS CORPORATION

Applicant

- and -

ST. MARYS PAPER CORP.

Respondent

APPLICATION UNDER SECTION 243(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c.B-3, AS AMENDED AND SECTION 101 OF THE COURTS OF JUSTICE ACT, R.S.O. 1990, C. C.43, AS AMENDED

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

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

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

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

Overview

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

4. St. Marys operates the Mill at owned premises located at 75 Huron Street, Sault Ste. Marie, Ontario. The Mill, and the equipment, inventory and other personal property located at or relating to the operations of the Mill are St. Marys primary assets.

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

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

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

8. I have been advised by E&Y, in its capacity as financial advisor to IFP, that as at August 13, 2011, St. Marys had only approximately $260,000 in cash and has no access to further credit facilities to fund future operating costs or ordinary expenses incurred in keeping the Mill idle, and unless additional financing is secured, St. Marys will consume its diminished cash reserves by early to mid-September. I understand that St. Marys is seeking a property tax refund through arbitration in the approximate amount of $1.4 to 1.6 million, net of costs, certain

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

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

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

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

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

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

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

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

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

Obligations Owing to IFP

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

Loan Agreement

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

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

Pulp Supply Contract

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

Sales and Remarketing Agreement

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

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

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

IFP Security

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

Personal Property Security

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

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

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

Real Property Security

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

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

Guarantors

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

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

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

Other Secured Creditors

PPSA Secured Creditors

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

Intercreditor Agreement with the Province

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

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

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

Intercreditor Agreement with RBC

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

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

NNF Security

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

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

Assetlinx Security

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

CFSL Notice

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

Other Registrations

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

Real Property Security Creditors

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

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

Lien on Real Property

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

Other Outstanding Debts

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

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

Vacation Pay and other Employee Claims

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

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

St. Marys Liquidity Crisis

Mill Shutdown

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

Default by St. Marys

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

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

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

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

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

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

<u>Request for IFP Forbearance</u>

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

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

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

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

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

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

<u>New Sources of Financing</u>

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

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

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

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

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

Engagement of E&Y as Financial Advisor

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

Demand for Payment and Notice of Intention to Enforce Security

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

IFP Security is Currently Enforceable

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

Need for Relief

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

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

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

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

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

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

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

A Commissioner of Oaths, etc.

DANIEL J. MOORE

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

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

Applicant — Respondents

Court File No.

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

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

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

INTERNATIONAL FOREST PRODUCTS CORPORATION

Applicant

- and -

ST. MARYS PAPER CORP.

Respondent

APPLICATION UNDER SECTION 243(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c.B-3, AS AMENDED AND SECTION 101 OF THE COURTS OF JUSTICE ACT, R.S.O. 1990, C. C.43, AS AMENDED

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

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

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

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

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

<u>Delivery of Notice of Application</u>

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

<u>Settlement Discussions</u>

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

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

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

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

Notice to Service List

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

September 7 Appearance

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

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

September 14 Appearance

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

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

Further Settlement Discussions

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

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

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

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

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

Need for Relief

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

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

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

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

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

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

A Commissioner of Oaths, etc.

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

DANIEL J. MOORE

Court File No.

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

Applicant Respondents

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

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

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Lawyers for the Applicant

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

INTERNATIONAL FOREST PRODUCTS CORPORATION

Applicant

- and -

ST. MARYS PAPER CORP.

Respondent

APPLICATION UNDER SECTION 243(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c.B-3, AS AMENDED AND SECTION 101 OF THE COURTS OF JUSTICE ACT, R.S.O. 1990, C. C.43, AS AMENDED

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A Commissioner of Oaths, etc.

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

DANIEL J MOORE

Court File No.

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

Applicant Respondents

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

SECOND SUPPLEMENTAL AFFIDAVIT OF DANIEL J. MOORE (SWORN OCTOBER 5, 2011)

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

INTERNATIONAL FOREST PRODUCTS CORPORATION

Applicant

- and -

ST. MARYS PAPER CORP.

Respondent

APPLICATION UNDER SECTION 243(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c.B-3, AS AMENDED AND SECTION 101 OF THE COURTS OF JUSTICE ACT, R.S.O. 1990, C. C.43, AS AMENDED

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

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

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

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

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

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

Material Developments since October 7, 2011

Interim Relief Motion

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

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

Cash Balance

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

Endorsement of Justice Campbell

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

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

Confirmation and Undertaking of St. Marys

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

St. Marys Receipts and Disbursements

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

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

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

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

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

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

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

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

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

Correspondence relaying IFP's concerns

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

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

St. Marys' Response

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

Overview of Response to Acton Affidavit

Capacity of IFP

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

Restart of the Mill

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

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

St. Marys' Default

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

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

Cooperation of IFP

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

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

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

Overview of Acton Affidavit

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

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

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

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

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

All Unsold Inventory has been paid for

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

No Event of Default

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

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

IFP Offset Right

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

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

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

Default under Agreements relating to the Co-Generation Facility

<u>Power Purchase Agreement</u>

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

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

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

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

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

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

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

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

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

Prosperity Fund Agreement and Province support of Co-Generation Facility

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

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

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

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

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

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

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

Value of IFP's Collateral

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

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

Valuations of IFP Collateral obtained by IFP

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

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

Need for Relief

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

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

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

SWORN BEFORE ME at the Town of Foxborough, in the Commonwealth of Massachusetts, this 14 day of October, 2011	))))))	
A Commissioner of Oaths, etc.		DANIEL J. MOORE

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

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

Court File No.

Applicant

Respondents

ONTARIO

SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

Proceeding commenced at Toronto

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

BLAKE, CASSELS & GRAYDON LLP
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Lawyers for the Applicant

12511221.4

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APPENDIX "C"

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

RECEIVER CERTIFICATE

CERTIFICATE NO.: 1

AMOUNT: $470,000

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 29th day of December, 2011 (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 $470,000, being a portion of the total principal sum of $1,500,000 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 monthly not in advance on the first day of each month after the date hereof at a notional rate per annum equal to the rate of 18% per cent.

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 to International Forest Products LLC at their offices in Massachusetts, in the United States of America.

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 10th day of January 2012.

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

Per: ______________________

Name: Alex Morrison
Title: Senior Vice-President

APPENDIX "D"

SCHEDULE "A"

SALES PROCESS PROTOCOL

Overview

On December 29, 2011, on the application of International Forest Products Corporation, now known as International Forest Products LLC ("**IFP**"), the Ontario Superior Court of Justice (the "**Court**") granted an Order (the "**Appointment Order**") appointing Ernst & Young Inc. as receiver and receiver and manager (the "**Receiver**") of all of the assets, undertakings and properties of St. Marys Paper Corp. ("**St. Marys**") effective December 30, 2011.

Pursuant to the terms of the Appointment Order, the Receiver will be commencing a process (the "**Sales Process**") to market the Property (as defined below) 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 Receiver will seek an Order of the Court approving the Sales Process and authorizing the Receiver to commence and carry out the Sales Process (the "**Sales Process Order**").

Set out herein are the procedures, terms and protocol (the "**Sales Process Protocol**") with respect to the solicitation, review and approval of offers to purchase the Property.

All capitalized terms used but not otherwise defined herein shall have the meanings given to them in the Appointment Order.

Property to Be Sold and Terms of Sale

The assets to be offered for sale pursuant to this Sales Process shall include all of the properties, undertakings, and assets of St. Marys and any liabilities required to be assumed in connection with the purchase of the business of St. Marys (the "**Property**").

The sale of the Property shall be on an "as is, where is" basis and without surviving representations and warranties of any kind, nature or description by the Receiver or any of its respective directors, officers, employees, agents, estates, advisors, professionals or otherwise.

Subject to an Order of the Court, all of the rights, title and interests of the Receiver and St. Marys in and to the Property will be sold free and clear of all pledges, liens, security interests, encumbrances, claims, charges, options and interests of any kind thereon (collectively, the "**Claims**") and such Claims shall attach to the net proceeds of sale (without prejudice to any claims or entitlements regarding priority, validity and enforceability), except to the extent otherwise expressly set forth in the relevant sale agreement or by Order of the Court.

Role of the Receiver

The Receiver shall conduct the Sales Process, subject to the Court's overriding supervision. This shall include facilitating the delivery of all mailings, contacting prospective purchasers and providing them with an initial offering summary (the "**Teaser Letter**") and confidential sales package (the "**Sales Package**"), coordinating execution of confidentiality agreements, facilitating any requests for tours of the facilities, managing the process of answering all inquiries from Interested Parties (as defined below) and coordinating any presentations that may be requested by prospective purchasers.

All requests for additional information shall be made through the Receiver, who shall coordinate responses to such requests with the appropriate parties.

The Receiver shall report to the Court on the outcome of the Sales Process and shall seek Court approval of any final sale agreement or agreements arising out of the Sales Process.

Identification of Potential Interested Parties

No later than three (3) business days following the issuance of the Sales Process Order, the Receiver shall cause a notice of Sale Process contemplated by this Sales Process Protocol and such other relevant information which the Receiver considers appropriate (the "**Sale Notice**") to be published in *The Globe and Mail* (National Edition), the Sault Ste Marie Star and Foresttalk.com.

The Receiver shall develop a list of strategic and financial parties, as well as decommissioning and liquidation parties, who may be interested in purchasing the Property (the "**Interested Parties**").

As soon as possible following the issuance of the Sales Process Order, the Receiver will begin to contact the Interested Parties to determine if they are interested in acquiring the Property. The Receiver shall distribute the Teaser Letter to all Interested Parties and any other party who requests same.

Within five (5) business days following the issuance of the Sales Process Order, the Receiver shall ensure that a data room (the "**Data Room**") is operational and that a template Asset Purchase Agreement (the "**Agreement Template**") is available in the Data Room.

Solicitation Process

Any parties who wish to conduct due diligence shall sign a confidentiality agreement, which shall be in form and substance acceptable to the Receiver and which shall inure to the benefit of any purchaser of the Property (the "**Confidentiality Agreement**").

Any party that executes a Confidentiality Agreement (each, a "**Potential Bidder**") shall be provided with the following by the Receiver:

- a copy of this Sales Process Protocol;
- the Sales Package;
- a copy of the Agreement Template; and
- access to the Data Room, where preliminary data will be available.

Phase I - Non-Binding LOIs

In order to be considered, each Potential Bidder shall be required to submit a non-binding letter of intent ("**LOI**") to the Notice Parties (as defined below) on or before **5:00 p.m. EST on January 30, 2012** which, among other things desired by the Potential Bidder, must outline:

- identification of the specific parties and proposed sponsoring entities to participate in the acquisition;
- the purchase price to be paid and form of consideration;
- overview of remaining due diligence activities;
- the assets to be purchased;
- the liabilities to be assumed;
- any conditions precedent; and
- any other material terms of the offer.

In addition, in order to be considered, each LOI must be accompanied by the most recent audited financial statements and the most recent unaudited financial statements of the Potential Bidder or, if the Potential Bidder is an entity formed for the purpose of acquiring the Property, the most recent audited financial statements and the most recent unaudited financial statements of the equity holders or sponsors of the Potential Bidder who will guarantee the obligations of the Potential Bidder, or such other form of financial disclosure and credit-quality support or enhancement that will allow the Receiver to make a reasonable determination as to the Potential Bidder's financial and other capabilities to consummate the sale of the Property.

The Receiver shall evaluate the LOIs based on, among other things, the ability of the potential interested parties to complete due diligence and consummate a transaction on a timely basis as well as other buyer or investor selection criteria that may be developed by the Receiver in its discretion and in consultation with IFP. The Receiver will then, in its discretion, identify parties ("**Qualified Bidders**") who, based on their LOIs ("**Qualifying LOIs**") will be invited to participate in Phase II.

Phase II - Qualifying Bidders and Further Due Diligence

Qualified Bidders shall be advised by the Receiver on or before January 31, 2012, and will thereafter be provided with access to additional information to compete their due diligence, which will be coordinated with the Receiver.

Site visits and in-depth meetings with management of St. Marys shall only be permitted once a Qualifying LOI has been received from a Qualified Bidder. Further, upon request and subject to the discretion of the Receiver, the Receiver may seek to facilitate and supervise direct meetings between Qualified Bidders and the key stakeholders of St. Marys or other parties, as necessary.

Phase III - Submission of Offers

Qualified Bidders shall have until **5:00 p.m. EST on February 10, 2012** to submit to the Notice Parties (as defined below) offers in the form of the Agreement Template for the purchase of the Property (an "**Offer**"). Each Offer must be accompanied by:

- a $250,000 cash deposit or letter of credit issued by a Schedule 1 Canadian chartered bank or other amount specified by the Receiver if the Offer is for less than all of the Property;
- a projected timeline for closing the transaction; and
- a detailed list of all conditions precedent to closing.

An Offer shall be an offer for all or part of the Property and, without limitation:

- clearly identify the potential purchaser and sponsoring entities by name and confirm corporate or other authorization to enter into a transaction;
- shall be in the form of the Agreement Template and include a blackline against the Agreement Template;
- shall not include any material conditions to closing other than those already included in the Agreement Template;
- shall not be conditional upon financing and shall include proof of financial ability to close a transaction;
- shall provide that any other conditions to the offer must be satisfied, waived or completed on or before February 21, 2012;
- shall be, in the reasonable opinion and discretion of the Receiver, likely to close on or prior to March 2, 2012; and
- shall not request or entitle the Qualifying Bidder to any break-fee, termination fee, expense reimbursement or other type of compensation or payment.

All Offers must be capable of acceptance and must be irrevocable until **11:59 pm EST on February 22, 2012** and shall be subject to Court approval. The Receiver may seek clarifications with respect to any of the Offers, and may grant reasonable extensions.

The Receiver may seek clarifications with respect to any Offers.

Each Offer shall be considered by the Receiver, in consultation with IFP.

On or before February 14, 2012, following review by the Receiver, in consultation with IFP, the Receiver shall notify the successful Qualified Bidder(s) that they shall be entitled to participate

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in Phase IV: negotiations in respect of the Agreement Template and satisfaction of conditions therein. Deposits shall be returned to all other Qualifying Bidders.

Phase IV - Negotiation of Conditions

The Receiver shall negotiate with the remaining Qualified Bidder(s) the final terms of the Offer(s) to reach a form of mutually agreeable purchase agreement (the "**Agreement**").

The remaining Qualified Bidder(s) shall then be entitled to meet with necessary parties to seek to finalize negotiations and satisfaction of existing conditions to the Agreement. The Receiver shall seek to facilitate and supervise direct meetings between the remaining Qualified Bidder(s) and such other necessary parties.

The remaining Qualified Bidder(s) shall have until **5:00 p.m. EST on February 21, 2012** to confirm or waive all remaining conditions.

Acceptance of Offers, Court Approval and Closing

The Receiver shall notify the successful Qualified Bidder that its offer is accepted (the "**Accepted Offer**") on or before February 22, 2012.

The Receiver shall take such steps as may be necessary to facilitate the closing of the Accepted Offer as soon as practical, including, without limitation, seeking Court approval of the Accepted Offer on or before February 29, 2012.

Closing of the Accepted Offer shall be completed as soon as possible after all required approvals are received, but in any event on or before March 2, 2012 unless otherwise agreed to by the Receiver in its discretion.

Notice Parties

Any documents to be sent to the Receiver under this Sales Process Protocol shall be sent by courier, facsimile transmission or e-mail. For the purposes of this Sales Process Protocol, the term Notice Parties shall mean:

ERNST & YOUNG INC.
Ernst & Young Tower
222 Bay Street, P.O. Box 251
Toronto ON M5K 1J7

Attention: Alex Morrison
Facsimile: 416 943 3300
Email: alex.f.morrison@ca.ey.com

With a copy to:
Cassels Brock & Blackwell LLP
2100 Scotia Plaza
40 King Street West
Toronto, ON M5H 3C2

Attention: Joseph Bellissimo
Facsimile: 416 642 7150
Email: jbellissimo@casselsbrock.com

And a copy to:
Blake Cassels & Graydon LLP
199 Bay Street, Suite 4000
Commerce Court West
Toronto, ON M5L 1A9

Attention: Michael McGraw
Facsimile: 416 863 2653
Email: michael.mcgraw@blakes.com

Miscellaneous

The Receiver may, in its discretion: (a) amend this Sales Process Protocol, including the right to extend, abridge or otherwise amend any timelines described herein as considered necessary by the Receiver or by further order of the Court; (b) reject, at any time, pursuant to this Sales Process Protocol, any bid that is inadequate or insufficient, not in conformity with the Sales Process Order or any other orders made in the proceedings or is contrary to the best interests of St. Marys and its stakeholders as determined by the Receiver; (c) impose additional terms, conditions or requirements and otherwise modify this Sales Process Protocol; (d) accept bids not in conformity with this Sales Process Protocol to the extent that the Receiver determines that doing so would benefit the estate and (e) reject all bids or Offers including the highest and best bid in respect of the Property if the Receiver determines that doing so would benefit the estate, but shall be entitled to recommend to the Court a transaction that, in the Receiver's discretion, among other things, maximizes value for all stakeholders and minimizes closing risk.

This Sales Process Protocol does not, and shall not be interpreted to, create any contractual or other legal relationship between any Interested Party, Potential Bidder or Qualified Bidder and St. Marys (or any of its subsidiaries or affiliates), the Receiver or any of their respective directors, officers, employees, agents, estates, advisors or professionals, other than as expressly set forth in definitive agreements signed by Receiver.

None of the Receiver or any of its directors, officers, employees, agents, estates, advisors or professionals, make any representation or warranty as to the information contained in any Teaser

Letter, Sales Package or information provided through due diligence or otherwise in this Sales Process, except as expressly set forth in definitive written agreements signed by the Receiver.

At any time during this Sales Process, the Receiver may, following consultation with IFP, apply to the Court for advice and directions with respect to the discharge of its powers and duties hereunder.

St. Mary's Paper Corp.

Sales Process Outline and Timelines

	Timeline
▶ Discuss Sale Process with Secured Creditors	Jan 6 – 10
▶ Approach potential bidders to facilitate coordination pre-court approval of Sale Process	Jan 6 - 17
▶ Development of Marketing Materials ✓ Form of Confidentiality Agreement ✓ Teaser Letter ✓ Sales Package (short form CIM)	Jan 15
▶ Develop Buyer List ✓ Strategic ✓ Distressed Private Equity Funds ✓ Decommissioning / Scrap dealers / Liquidators	Jan 15
▶ Proposed Court approval of Sale Process Protocol	Jan 18
▶ Newspaper advertisements in the Globe & Mail, Sault Star and Foresttalk.com	Jan 23
▶ Data Room finalized	Jan 20
▶ Contact prospective purchasers ("Interested Parties")	Jan 18 - 23
▶ Template APA made available in the data room	Jan 23
▶ Site visits	Jan 18 – Jan 27
▶ Submission of non-binding LOI's	Jan 30
▶ Qualifying LOI's selected	Jan 31
▶ Further site visits and in depth management meetings for Qualified Bidders	Jan 31 – Feb 9
▶ Direct meetings between Qualified Bidders and key stakeholders	Jan 31 – Feb 9
▶ Submission of Offers	Feb 10
▶ Selection of final bidder(s)	Feb 14
▶ Qualified Bidder to waive all remaining conditions	Feb 21
▶ Successful bidder notified that offer is accepted (the "Accepted Offer")	Feb 22
▶ Court Approval of Accepted Offer	Feb 29
▶ Closing	Mar 2

APPENDIX "E"

CONFIDENTIAL APPENDIX "E"

TO THE RECEIVER'S FIRST REPORT DATED JANUARY 13, 2012

TO BE KEPT CONFIDENTIAL BY THE COURT

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

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

INTERNATIONAL FOREST PRODUCTS LLC (formerly known as INTERNATIONAL FOREST PRODUCTS CORPORATION)
Applicant

- and -

ST.MARYS PAPER CORP.
Respondent

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding Commenced at Toronto

MOTION RECORD
(Returnable January 18, 2012)

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