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

SUPPLEMENT TO THE THIRD REPORT OF THE RECEIVER OF ST. MARYS PAPER CORP. DATED MAY 17, 2012

INTRODUCTION

1. Pursuant to the Order of the Honourable Mr. Justice Campbell dated December 29, 2011, effective December 30, 2011, Ernst & Young Inc. ("**EYI**") was appointed as the receiver and receiver and manager (the "**Receiver**") of all of the assets, undertakings and properties of St. Marys Paper Corp. ("**St. Marys**") acquired for, or used in relation to St. Marys' business, including all proceeds (the "**Property**") pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**") and section 101 of the *Courts of Justice Act*, R.S.O 1990 c C.43, as amended (the "**Appointment Order**"). A copy of the Appointment Order is attached as Appendix "A" to the Third Report of the Receiver dated May 3, 2012 (the "**Third Report**")

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

3. On May 8, 2012, IFP brought a bankruptcy application (the "**Bankruptcy Application**") with respect to St. Marys. Further to a request from counsel to certain directors and officers of St. Marys (the "**D&O Counsel**"), the Court adjourned the hearing with respect to the Bankruptcy Application to May 18, 2012 as the D&O Counsel requested additional time to review information related to certain vacation pay and HST amounts owed by St. Marys with respect to the period prior to the Appointment Order.

4. Further, on May 8, 2012, the Receiver brought a motion (the "**Distribution Motion**") to this Court seeking, *inter alia*, the Receiver to distribute the amount of $4,220,000 to IFP from the cash in the Receiver's possession and a declaration that the distribution of $4,220,000 is to be applied on account of the indebtedness owing by St. Marys to IFP. Pursuant to the adjournment of the Bankruptcy Application, the Distribution Motion was adjourned to be heard on May 18, 2012 after the Bankruptcy Application.

PURPOSE

5. The purpose of this Supplement to the Third Report of the Receiver (the "**Supplement**") is to report to this Court with respect to:

   a) vacation pay of $576,404 owed by St. Marys to its former employees for the period prior to the Appointment Order;

   b) $1,416,685.84 of Harmonized Sales Tax ("**HST**") owed by St. Marys to the Canada Revenue Agency ("**CRA**") for the period prior to the Appointment Order; and

   c) a settlement in principle of the motion brought by P.S. Johnson Valuation Consultants Ltd. and P.S. Johnson Legal Services Professional Corporation (together, "**PS Johnson**").

TERMS OF REFERENCE

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

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

8. Terms not otherwise defined herein have the meanings ascribed to them in the Third Report.

VACATION PAY

9. Prior to the Appointment Order, with the consent of St. Marys, the Receiver was engaged by IFP to conduct a general review of St. Marys' business and affairs including the operations and financial position of St. Marys (the "**Financial Review**"). As part of its analysis related to the Financial Review, the Receiver reviewed St. Marys' unaudited financial statements as of June 30, 2011 (the "**June 2011 Balance Sheet**"), a copy of which will be available for the Court if required.

10. The June 2011 Balance Sheet reflected an amount of approximately $587,000 as accrued vacation pay. This amount was also set out at paragraph 44 of the affidavit of Daniel J. Moore sworn August 31, 2011 filed by IFP in support of its Receivership application.

11. Following its appointment as receiver, the Receiver obtained a copy of St. Marys' unaudited financial statements including its balance sheet as of December 31, 2011 (the "**December 2011 Balance Sheet**") which reflects an amount of approximately $576,000 as accrued vacation pay. The December 2011 Balance Sheet is rounded to the nearest

thousands of Canadian dollars. A copy of the December 2011 Balance Sheet will be available for the Court if required.

12. The Receiver understands that the net reduction in vacation pay between the June 2011 Balance Sheet and the December 2011 Balance Sheet is due to the payment of certain vacation pay during the period from July 1, 2011 and December 30, 2011, prior to the Appointment Order.

13. St. Marys' staff provided the Receiver with a breakdown of the accrued vacation pay noted in the December 2011 Balance Sheet totalling to approximately $576,404 which reflects approximately $510,539 owed to former unionized employees, approximately $32,881 owed to former staff employees and approximately $32,984 owed to former management employees (the "**Vacation Pay**").

14. The Receiver understands that the unionized employees were on lay-off since prior to June 30, 2011. Accordingly, the amount of Vacation Pay owed to the former unionized employees relates to the period prior to June 30, 2011, which is six months prior to the Appointment Order. The Vacation Pay with respect to former staff employees and former management employees include 13 former employees who are owed Vacation Pay that accrued within the six months prior to the Appointment Order. Section 81.4 of the Bankruptcy and Insolvency Act ("**BIA**") provides a priority for such vacation pay amounts related to these 13 employees up to $2,000 per employee. Accordingly, an amount of $26,000 will be held back from a potential distribution to IFP. A claim under the Wage Earner Protection Program Act ("**WEPPA**") will be filed for these 13 employees that may result in a subrogated claim from the Wage Earner Protection Program.

15. The Vacation Pay is based on the books and records of St. Marys as described above. The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of Vacation Pay. Further the Receiver has not conducted a claims process to confirm the amount of Vacation Pay.

HARMONIZED SALES TAX

16. As described in the Third Report, St. Marys owes HST of $1,416,685.84. The Receiver understands that this HST primarily relates to input tax credits received by St. Marys prior to the Appointment Order on supplier invoices that were unpaid and ultimately stayed by the Appointment Order.

17. The Receiver was advised that St. Marys' employees were contacted by CRA on February 21, 2012 requesting that St. Marys determine and provide to CRA the amount of HST input tax credits claimed by St. Marys on amounts owing to St. Marys' creditors. Further to the request, the CRA auditor attended at St. Marys on March 7, 2012 to review St. Marys' HST records and unpaid creditor invoices.

18. On March 12, 2012, pursuant to CRA's audit of St. Marys' books, the Receiver received a letter from CRA advising of the HST of $1,416,685.84 (the "**March 12 CRA Letter**"). Further, on April 17, 2012, the Receiver received a letter advising the Receiver of the amounts owed by St. Marys to CRA for source deductions and HST (the "**April 17 CRA Letter**"). The amount related to source deductions was paid by the Receiver to CRA pursuant to the Order of this Court granted on May 8, 2012. Copies of the March 12 CRA Letter and April 17 CRA Letter will be available for the Court if required.

19. The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the HST claimed by CRA. Further the Receiver has not conducted a claims process to confirm the amount of HST.

PS Johnson Claim

20. As described in the Third Report, PS Johnson filed a Statement of Claim (the "**PS Johnson Statement of Claim**") against St. Marys on June 13, 2011. In the PS Johnson Statement of Claim, PS Johnson alleges that it provided realty tax consulting services to St. Marys and claims for unpaid fees of $69,202.95 (the "**PS Johnson Claim**").

21. PS Johnson brought a motion to this Court seeking a declaration of a constructive trust over funds held by the Receiver for the amount of the PS Johnson Claim (the "**PS Johnson Motion**").

22. IFP, PS Johnson and the Receiver have agreed in principle to settle the PS Johnson Claim and the PS Johnson Motion. Under the settlement PS Johnson will receive the amount of $40,000 from funds in the Receivership estate. As a result of this settlement, the distribution to IFP as described in paragraph 45 of the Third Report will be reduced by $40,000.

All of which is respectfully submitted this 17th day of May, 2012.

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

Per:

Alex Morrison
Senior Vice President

Simone Carvalho
Vice President