January 2012

St. Marys Paper Corp.

Ernst & Young Inc. ("**E&Y**") has been appointed receiver and receiver and manager (in such capacity, the "**Receiver**") of all of the assets, undertakings and properties (collectively, the "**Property**") of St. Marys Paper Corp ("**SMPC**" or the "**Company**"), pursuant to an Order issued by the Ontario Superior Court of Justice (the "**Court**") effective December 30, 2011 (the "**Appointment Order**"). By order of the Court dated January 18, 2012 (the "**Sales Process Order**") the Court authorized the Receiver to conduct a process to market and sell the Property of SMPC (the "**Sales Process**") as set out in the procedures included in the Sales Process Order (the "**Sales Process Protocol**").

Copies of the Appointment Order and the Sales Process Order are available on the website maintained by the Receiver for these proceedings. www.ey.com/ca/smp.

Company Overview

SMPC is located at the Canadian/U.S. (Michigan) border on the Great Lakes waterway, at Sault Ste. Marie, Ontario. The Company is more than 115 years old, originally built to take advantage of the rich forestry resources of the region and the powerful water flow of the St. Marys River, which connects Lake Superior and Lake Huron. The abundant, high-quality woodlands are still the key to the future of the Company along with its strategic location. SMPC is a groundwood pulp and paper mill with an annual capacity of 240,000 tons on three paper machines producing quality super calendar paper grades including a wide range of basis weights in the SCA and SCB grades, used mainly by magazine publishers and retailing companies for high quality advertising inserts, flyers and catalogues. SMPC operated successfully in 2008 producing an EBITDA of nearly $20 million.

By late 2009 it suspended operations as a result of poor market conditions caused by supplier overcapacity. The mill restarted during 2010 but was idled again in April 2011 primarily as a result of weaker market conditions.

Investment Highlights

Strategic location

- Strategically located on the Canadian border, SMPC is in close proximity to abundant fibre sources and several northern bleached softwood pulp mills.
- SMPC is the closest super calendar paper mill to the Midwestern U.S. and Toronto printing markets, representing a significant proximity and cost advantage particularly with respect to expensive freight costs.

Fibre Supply

- SMPC has volume commitments from the Ministry of Northern Development, Mines and Forestry for 240,000m3 of conifer and 80,000m3 of poplar roundwood fibre and 360,000m3 or equivalent tonnes of biomass.

- In addition to this supply, SMP Resources Inc. (“**SMPR**”), a wholly owned subsidiary of SMPC actively harvests other fibre species for sales to other mills. SMPR manages harvesting operations and road construction activities on the Algoma Forest, Northshore Forest, and private lands in Ontario and on timber sales in Michigan. SMPR operations produce up to 200,000m3 of roundwood products in Ontario and 60,000m3 in Michigan.
- SMPC is chain of custody Forest Stewardship Council (“**FSC**”) certified. Under the FSC Mixed Credit program SMPC is able to sell approximately 70% of its production as FSC paper.

Modern efficient mill infrastructure

- SMPC has made substantial investments in upgrading and modernizing the paper mill between 1994 and 2004 to make it a productive and modern paper mill. Approximately $180 million was spent in the pulp mill, the finishing operations and paper machines.
- SMPC’s Paper Machine 5 is a modern machine which was installed in 1988 and has a current operating speed of 4,200 feet per minute and a current production capacity of 380 finished short tons per day based on 35.5 lb sheets.

Competitive cost position

- SMPC has a modernized groundwood plant complete with a state of the art woodroom that provides low-cost groundwood fibre providing 80% of the fibre needs. The groundwood operation can be easily expanded as product development or productivity requires.

Cogeneration Opportunity

- SMPC’s affiliates St. Marys Renewable Energy Corporation and St. Marys Renewable Energy LP (collectively, “**SMREC**”) have developed plans and successfully negotiated a 10-year Power Purchase Agreement with the Ontario Power Authority to construct and operate a state-of-the-art 37.5 MW, renewable biomass-fueled co-generation plant in Sault Ste. Marie, Ontario. SMPC is the “host” facility under the Power Purchase Agreement.
- The "green energy" initiative of SMREC is to build, operate and maintain the first bubbling, fluidized-bed boiler in Ontario as part of the inside-the-fence co-generation facility on land leased from and adjacent to, the paper mill. The renewable biomass will be converted to energy in the form of steam and electricity that can be used by SMPC. The expected electricity to be produced is equal to 90 percent of the electrical needs of the SMPC mill at full production.
- The arrangement with the co-generation plant upon its start-up is expected to generate approximately $8 million of synergies and economic benefits every year to SMPC, including leasing land and the sale of biomass to the cogeneration plant, as well as reduced steam plant labour and a lower steam load in SMPC’s paper operation. In addition, SMREC is expected to generate substantial free cash flows through electricity sales to the Ontario electricity grid pursuant to the Power Purchase Agreement.
- Further details with respect to the co-generation opportunity will be provided to interested parties.

Marketing Process

The Receiver has received Court approval to commence a sales process as described below. Any person that wishes to participate in this Sales Process must comply with the Sales Process Order and the Sales Process Protocol approved therein, including the timelines established in the Sales Process Protocol. The Receiver will consider transaction proposals only from interested parties who meet certain qualifications (“**Interested Parties**”). Interested Parties will receive a confidential sales package and access to a data room upon execution of a confidentiality agreement to be provided by the Receiver. Interested Parties should direct all inquiries to the Receiver who will arrange all contacts for appropriate due diligence.

Interested parties are requested to note and respect the following Court approved schedule:

- Submission of a non-binding letter of intent on or before January 30, 2012 after preliminary site visits and access to the data room.
- After completion of further due diligence and meetings with certain stakeholders, submission of an offer on or before February 10, 2012.
- The selected bidder is to waive all remaining conditions on or before February 21, 2012.
- The Receiver to seek Court approval of the sale on or before February 29, 2012.
- The sale transaction is to close on or before March 2, 2012.

The Receiver's website can be accessed at www.ey.com/ca/smp.

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