



This is the 1st affidavit of
B. Baarda in this case and was
made on January 31, 2012

No. S-120712
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED

AND

IN THE MATTER OF THE *CANADA BUSINESS CORPORATIONS ACT*, R.S.C. 1985, c. C-44

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, S.B.C. 2002, c. 57

AND

IN THE MATTER OF CATALYST PAPER CORPORATION
AND THE PETITIONERS LISTED IN SCHEDULE "A"

PETITIONERS

AFFIDAVIT

I, Brian Baarda, businessperson, of 2nd Floor, 3600 Lysander Lane, Richmond, British Columbia,
AFFIRM THAT:

1. I am the Vice President, Finance and Chief Financial Officer of Catalyst Paper Corporation ("CPC"), a Petitioner in this proceeding, and as such I have personal knowledge of the matters deposed to in this Affidavit except where I depose to a matter based on information from an informant I identify, in which case I believe that both the information from the

informant and the resulting statement are true. In preparing this Affidavit, I have also consulted with other members of the senior management team of Catalyst (defined below) (the “**Senior Management**”).

2. I am authorized to make this affidavit on behalf of CPC. This affidavit is affirmed in support of a Petition by CPC, certain of its direct and indirect subsidiaries listed in Schedule “A” to the Petition (collectively, the “**Petitioners**”) and Catalyst Paper General Partnership (collectively, with the Petitioners, the “**Petitioner Parties**”, “**Catalyst**” or the “**Company**”) for relief under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”).

3. This Petition arises as the result of a variety of circumstances, as described below, which require the Company to restructure in order to ensure that it can proceed as a viable business entity going forward. At present, the value of the Company’s assets if sold on a going concern basis is less than its liabilities. Further, without financing through a Debtor in Possession facility, the Company will be unable to continue to satisfy its financial obligations as they become due.

4. The Company is optimistic that restructuring under the protection of the CCAA will have the effect of improving Catalyst’s long-term financial prospects while preserving value and permitting the Company to continue to operate on a going concern basis during and beyond the period of creditor protection.

5. I have read the Petition to be filed in these proceedings and the facts set out in Part 2 therein are true. Attached and marked as **Exhibit “A”** to this my affidavit is a true copy of the draft Petition that I reviewed. Unless otherwise defined herein, capitalized terms used herein have the meaning ascribed to them in the draft Petition.

The Company

6. CPC is a company incorporated under the *Canada Business Corporations Act*, R.S.C. c-44 (“**CBCA**”). It was originally incorporated as British Columbia Forest Products Limited and, through a series of mergers, acquisitions and restructurings, became the principal operating

company of the group of companies known as Catalyst. CPC is the ultimate parent company of 28 direct and indirect subsidiaries.

7. The authorized capital of CPC consists of an unlimited number of common shares and 100,000,000 preferred shares. As of January 14, 2012, Catalyst had 381,900,450 common shares issued and outstanding (the “**Shares**”). CPC is a publicly traded entity which trades on the Toronto Stock Exchange under the symbol TSX:CTL. As at the close of trading on January 27, 2012, the Shares traded at \$0.02.

8. The other Petitioners include all of Catalyst’s Canadian and U.S. subsidiaries which are guarantors under the ABL Facility, the 2016 Notes and the 2014 Notes.

9. CPC’s principal subsidiary in the United States is CP Holdings, which is a wholly owned subsidiary of CPC. All of the American Subsidiaries have assets in Canada, namely funds on deposit in bank accounts located in Vancouver, British Columbia.

10. Catalyst Paper General Partnership (the “**General Partnership**”) is a general partnership between CPC, who holds a 71.3% general interest in the General Partnership, and Catalyst Pulp, who holds the remainder. The General Partnership maintains for its business purposes an office at 2nd Floor, 3600 Lysander Lane, Richmond, British Columbia.

11. The General Partnership carries on all of the Company’s Canadian manufacturing activities and CPP Sales conducts primarily all of the Company’s Canadian sales.

12. The General Partnership carries out all the Canadian manufacturing activities of the Company and employs the hourly and salaried Canadian employees located at the Canadian manufacturing sites. The General Partnership and CPP Sales are responsible for the Canadian collective agreements and, as applicable, the obligations under them including the obligation to provide post-retirement benefits to retired employees and to provide bridge pension benefits for employees who retire between the ages of 60 and 65.

13. A stay of proceedings with respect to the General Partnership and the Petitioners is necessary in order to preserve the value and assets of the Company as the Company seeks to

restructure. In light of the relationship between the General Partnership and the Petitioners, a successful restructuring cannot be implemented without the General Partnership receiving the protections afforded to the Petitioners under the CCAA.

14. I understand that each of the partners, CPC and Catalyst Pulp, of the General Partnership have authorized the General Partnership to enter into arrangements with a debtor in possession (“DIP”) lender to arrange for DIP financing for the purposes of this CCAA proceeding. In addition, I understand that CPC and Catalyst Pulp have each authorized the General Partnership to be subject to these CCAA proceedings and the terms of any Initial Order made by this Court, including granting security over all of the assets, property and undertaking of the General Partnership.

15. Catalyst is the largest producer of mechanical printing papers in western North America and provides paper and pulp for commercial printers, publishers and paper manufacturers in North America, Latin America, the Pacific Rim and Europe. Catalyst’s operations are conducted through various subsidiaries that are incorporated in various jurisdictions. As set out in greater detail below and in the Petition, the Company owns and leases several properties throughout North America that are associated with its operations.

16. Attached as **Exhibit “B”** is a corporate chart showing the Petitioners, the General Partnership and other entities affiliated with Catalyst.

Jurisdiction of the Proceeding

17. The Petitioner Parties are part of a consolidated business comprising various manufacturing, sales, and distribution facilities and offices in Canada and the United States and are operationally and functionally integrated in many respects. The Petitioner Parties are governed by CPC directly.

18. CPC’s head office and the registered offices of each Canadian Subsidiary are located in Richmond, British Columbia. CPC, the General Partnership, CP Holdings and CP Snowflake are borrowers under the ABL Facility which is secured by all of Catalyst’s current assets. CPC is the issuer of the 2016 Notes and the 2014 Notes.

19. It is currently contemplated that this CCAA proceeding will be the primary court-supervised restructuring of the Company.

20. Catalyst proposes that the American Subsidiaries be included in this proceeding in order to deal with the guarantees provided by the American Subsidiaries with respect to the ABL Facility, the 2016 Notes and the 2014 Notes and the requirement that a restructuring plan include issues related to the American Subsidiaries. As far as practicable, it is otherwise the Company's intention that the American Subsidiaries will continue to operate on a business as usual basis during this proceeding, including payment of its ongoing trade and employee obligations.

21. The Petitioner Parties need to ensure that the American Subsidiaries are protected from general creditor actions in the United States. The Petitioner Parties also require a recognition order under Chapter 15 of the United States Bankruptcy Code to assist with global implementation of the restructuring. The DIP Facility (defined below) will not be fully available until the Petitioner Parties have obtained a recognition order from the U.S. Court. In order to obtain this Order, the Petitioner Parties, in part, require confirmation from this Court that British Columbia is the Petitioner Parties' Centre of Main Interest.

22. The Petitioner Parties' operate primarily from British Columbia notwithstanding the existence of certain operations in the United States. The facts demonstrating that the Petitioner Parties operate from British Columbia are:

- (a) all of the Petitioner Parties have assets in Canada and each of the companies comprising American Subsidiaries has funds in a bank account at the Canadian Imperial Bank of Commerce ("CIBC");
- (b) the operations of the Petitioner Parties are directed from CPC's head office in Richmond, British Columbia;
- (c) all of the American Subsidiaries have management staff who report directly to CPC on issues affecting the operations and business activities of the American Subsidiaries;
- (d) three of the Company's mills, which constitute the majority of the Company's production capacity, are in British Columbia;

- (e) corporate governance for the Petitioner Parties is directed from Richmond, British Columbia;
- (f) strategic and key operating decisions and key policy decisions for the Petitioner Parties are made by centralized Senior Management located in Richmond, British Columbia;
- (g) the Petitioner Parties' tax, treasury and cash management functions are managed from Richmond, British Columbia and local plant finance staff report to senior finance management in Richmond, British Columbia;
- (h) the Petitioner Parties' human resources functions are managed from Richmond, British Columbia and all local human resources staff report into Richmond, British Columbia;
- (i) primary research and development functions including new product conceptions and development, regulatory and clinical development, safety issues and quality control are directed from and carried out in Richmond, British Columbia;
- (j) the Petitioner Parties' information technology and systems are directed from Richmond, British Columbia;
- (k) plant management and senior staff of the Petitioner Parties regularly attend meetings in Richmond, British Columbia;
- (l) all public company reporting and investor relations are directed from Richmond, British Columbia;
- (m) Senior Management and all sales (including the United States sales functions), manufacturing (including the general manager of the Snowflake Mill), operations (including the general manager responsible for the Apache Railway) and legal staff report to CPC's CEO, Kevin Clarke, who is based in Richmond, British Columbia; and
- (n) the vast majority of the Company's major suppliers and creditors deal with, and recognize, Richmond as the centre of operations for all of the companies.

23. The January 17, 2012 Interim Order in the CBCA proceedings commenced by Catalyst declared that British Columbia was the centre of main interest of Catalyst and its subsidiaries, including, but not limited to, the Petitioner Parties. On January 19, 2012, upon a motion commenced by Catalyst, an Order was granted in the United States Bankruptcy Court for the District of Delaware granting provisional relief for recognition of the CBCA proceedings as a foreign proceeding.

24. Of the Senior Management, the VP Sales is the only individual who resides permanently in the U.S. Mr. Clarke, the CEO, is a U.S. citizen who has residences in the U.S. and Canada, and attends to Company business primarily from the Company's head office in Canada. Mr. Clarke assists with international and U.S. sales functions and spends time in the U.S. attending to those functions. His principal office is in Richmond, British Columbia and he spends over 60% of his time in Canada.

25. The Petitioner Parties intend that the relief requested in the Chapter 15 cases will include, among other things:

- (a) recognition of the CCAA proceeding under Chapter 15 of the Bankruptcy Code, including but not limited to any and all relief available under section 1520 of the Bankruptcy Code;
- (b) establishment of any of the Petitioners on its own behalf, and/or CPC on behalf of any or all of the Petitioner Parties, as foreign representatives;
- (c) enforcement of the Initial Order in the United States, including any portion of the Initial Order related to DIP financing and the enforcement of the stay of proceedings, including in respect to enforcement of termination rights of any party against one of the Petitioner Parties; and
- (d) enforcement of the Confirmation Order and any final Plan approval or implementation order in the United States.

26. It is most expedient and efficient that the restructuring of Catalyst and the treatment of Catalyst's debt obligations be implemented through one reorganization proceeding that is overseen and directed by the Court in Canada, which is the CPC's home jurisdiction and the centre of the Petitioner Parties' management, business and operations.

Key Suppliers

27. Due to its circumstances, the Company has not, for some time now, kept significant inventory on hand. The Company relies on efficient and expedited supply to ensure that its operations continue, particularly in the current situation of lower inventory levels.

28. The Company has worked with the Proposed Monitor to identify a list of suppliers it has determined to be key to the business and the continued operation of the Company's business.

The Company and the Proposed Monitor considered various factors in determining these key suppliers. These factors include the importance of the supplier to the Company's operations, the nature of the goods or services supplied and whether there are alternative supply sources, the ability of the supplier to either remain in business or continue normal operation if not paid, the ability and likelihood that the supplier may delay or otherwise restrict supplying goods or services in the event of the Company's nonpayment, the volume of the goods or services supplied, the potential for disruption to the Company's operations if the supplier delays or fails to expedite supply of goods or services pursuant to their existing contracts, the ability of the supplier to maintain a possessory lien on the property, and the amount the Company currently owes to each supplier.

29. It is my understanding that a stay of proceedings may require suppliers to continue to supply goods and services but will not allow the Company to require expedited supply from its suppliers or require suppliers to extend credit. Furthermore, it is my understanding that without approval from the Court amounts owing to suppliers in respect of pre-filing debt cannot be paid. As a result of the unique circumstances discussed below, Catalyst is seeking approval of the Court to allow it to pay certain pre-filing amounts, but only with Monitor approval, and to compel certain critical suppliers to continue to supply goods and services on usual trade and credit terms and to create a critical suppliers' charge for this group of critical suppliers.

30. In order to ensure adequate and timely supply of required products and services, the Company requires flexibility to both compel supply, access credit terms on the basis of a critical supplier charge and negotiate credit terms going forward which might require some payment of pre-filing debt. The Company must ensure continued good relations with suppliers and be able to offer them a variety of options related to the terms upon which they will continue to supply to the Company during these proceedings.

31. I also understand that a number of the Company's key suppliers are in a fragile financial state and any stay of proceedings that results in these suppliers not being paid certain pre-filing amounts outstanding could result in these suppliers suffering financial distress and an inability to supply even if ordered to do so.

32. In addition, there are several suppliers who may have the ability to exercise possessory liens or use otherwise lawful means to require the Company to pay the amounts outstanding to them. Any such action may disrupt the operations of the Company and negatively impact any potential restructuring. The Company requires the flexibility to pay these suppliers or, if applicable, to stay any exercise of such a possessory lien in order to ensure continued, uninterrupted operations.

33. The Company relies on an extensive and interwoven network of suppliers and service providers to ensure the continuance of its business. These suppliers are necessary to the production of the Company's product as well as the delivery of the Company's product to its customers in a highly competitive industry. A number of these suppliers may request a payment of amounts owing from the Company if the Company obtains CCAA protection or, if unpaid, will likely require continuing supply on cash on delivery terms, which, owing to the nature of the business, are either extremely cumbersome or simply not tenable.

34. For a number of suppliers in the below categories, the quantity of product and the general delivery process make cash-on-delivery arrangements unworkable. Amounts to be paid to these suppliers can often only be established once the product has arrived at the Company's mill site. The Company is unable to determine what the cost of the supply will be before the products leave the suppliers' facilities. The payment of certain pre-petition amounts if consented to by the Proposed Monitor will permit the Company to make arrangements with these suppliers that will ensure the continuation of supply. The Company intends to continue to rely on those suppliers with which it has contracts that were entered into prior to the filing of the Petition.

35. For the most part, these suppliers and service providers and the reasons for their importance to the Company can be classified into five general categories: chemical suppliers; fibre suppliers; recovered old newsprint suppliers; utilities and other fossil fuel suppliers; and freight services providers.

36. Catalyst's manufacturing processes require certain chemicals. For many of these chemicals, there are very few suppliers: in some cases, only one or two companies have the particular chemical available. In addition, the manufacturing processes and the transportation of

the chemicals themselves have a lengthy timeline. Any disruption to the timely transit of the chemicals may cause harm to the Company and its business. Therefore, the Company wants to ensure (1) that its contracts with its chemical suppliers are supported and that certain arrears under these contracts can be paid if necessary, and (2) that the Company may renew contracts with these chemical suppliers, if necessary, during the CCAA proceedings so as not to disrupt supply.

37. The manufacture of paper requires the supply of various types of wood fibre. The Company's fibre suppliers are crucial to the Company's business. In particular, there are three categories of fibre suppliers that are particularly essential to the Company. Firstly, there are only a few suppliers who are able to provide the required high volume of certain types of fibre for the Company's needs. Due to the large production capacity of Catalyst's business, certain types of fibre are required in substantial volumes. Secondly, some fibre suppliers provide unique products that are necessary for the Company's needs and are unavailable from other suppliers. Thirdly, there are certain companies which control the storage facilities in which Catalyst maintains its inventory of fibre. These companies may be able to exercise possessory liens over the stored fibre, which would interrupt the Company's delivery system and production. Certain of the suppliers of fibre to the Company are themselves financially fragile and a failure to receive payment for supply could render them financially incapable of continuing efficient supply.

38. The primary raw material for the Snowflake Mill is old newsprint ("ONP"). There has been an increasingly limited supply of ONP due to decreasing consumption of newspapers in the U.S. as well as an increased demand for ONP in Asia. The Company will likely suffer heavy losses in the event of any disruption of its ONP supply. Early last year, a stockpile of ONP was destroyed in a fire, which resulted in losses to the Snowflake Mill of \$4.1 million. The Company must ensure a continued supply of ONP to keep the Snowflake Mill operational. Already a number of suppliers have compressed usual trade terms to ensure seven day terms or, in two cases, cash deposits. The Company must re-establish normal trade terms and requires a flexible arrangement under the orders to do so.

39. The provision of utilities and other fossil fuels are necessary for the functioning of the Company's operations. Any interruption of the supply of gas or power to the Company's operations would cause significant production problems. The Company expects that the usual stay provisions should allow it to resolve supplier issues for fuel but again, require some flexibility in that regard.

40. The Company must maintain its widespread transportation and distribution network in order to ensure the continuation of the business. The Company needs to be able to maintain flexibility in dealing with carriers whether or not those carriers can exercise possessory liens. Some of the routes of transport are in areas with limited service available from transportation service providers. The Company requires timely deliveries to and from these areas for the continued functioning of its business and requires continuation of the contracts with its current transportation service providers.

41. The Company requires the ability to either provide a critical supplier charge or pay certain pre- and post-filing payables to those suppliers it considers essential as confirmed by the Proposed Monitor. In the event the Company encounters supplier issues post-filing, the Company, with the approval of the Proposed Monitor may enter into arrangements with other suppliers which could involve some payment for pre-filing payables. The Company is aware of the potential prejudice to other creditors of making these payments and intends to keep them to a required minimum level. However, this proposal is specifically designed to maintain efficient operations and avoid losses that would erode value for all stakeholders.

42. The Company intends to seek an order that it be subrogated to the rights of any creditor receiving payment of pre-petition debts pursuant to this arrangement.

Cash Management

43. The Company's operations require the collection and movement of funds through a number of bank accounts held at the CIBC, JPMorgan Chase Bank, N.A. ("**JPMorgan**") and Royal Bank of Canada ("**RBC**"), in Canada, and CIBC, JPMorgan and Wells Fargo, in the United States, which is managed through the Company's head office in Richmond, British

Columbia (the “**Cash Management System**”). Catalyst uses the Cash Management System in the ordinary course, which involves the deposit of funds:

- (a) in Canada, into a receipts account held by CPP Sales (the “**Receipts Account**”), which are then transferred to an account held by the General Partnership; and
- (b) in the United States, through a number of lockboxes, which are consolidated in a master lockbox account held by CP USA, which are then transferred to various CP USA accounts and accounts for other American Subsidiaries.

44. The funds held by CP USA are used for CP USA’s own payroll and disbursements accounts, as needed. Excess monies are transferred from CP USA to the Receipts Account and to CP Snowflake as a payment of intercompany purchases. Monies transferred to CP Snowflake are used to make required operational disbursements.

45. Funds are transferred from the Receipts Account to the General Partnership as a payment of intercompany purchases. These monies are then used to make required operational disbursements through the Company’s central disbursement accounts held in Canadian and US currency.

46. The Cash Management System comprises forty-four (44) bank accounts:

- (a) In Canada, nineteen (19) accounts are maintained with CIBC and JP Morgan Chase in Canadian currency held by CPP Sales, CPC, the General Partnership, Catalyst Pulp, Catalyst Pulp Sales, CP Energy Holdings, Pacifica Poplars and 0606, and ten (10) accounts are maintained with CIBC and JP Morgan Chase in U.S. currency held by CPP Sales, CPC, the General Partnership, Catalyst Pulp, Catalyst Pulp Sales, CP Holdings and Pacifica Poplars US; and
- (b) In the U.S., fourteen (14) accounts maintained with JPMorgan, Wells Fargo and CIBC in American currency are held by CP USA, CP Snowflake, Apache, CP Recycling, CP Holdings, and Pacifica Poplars US, and one (1) account is maintained with CIBC in Canadian currency held by CP Holdings.

47. Attached as **Exhibit "C"** is a diagram of the Cash Management System. The Company has transferred its accounts from RBC to CIBC; however, some customers are still sending money to the RBC accounts.

48. The Company incurs charges on its Cash Management System to the various banks that maintain the accounts in the Cash Management System. I understand that these banks require their charges to be protected by a priority charge order with the intention that the charges are to the benefit of the bank maintaining the account.

49. It is my understanding that, under the ABL Facility, the fees and services for the portion of the Cash Management System managed by CIBC are, as between JPMorgan and CIBC, subordinate in priority to those of JPMorgan pursuant to the tiered payment scheme set out in the ABL Facility. In the month of December 2011, the banking fees payable to CIBC were approximately \$6,500.

50. The Company has existing accounts that are subject to blocked account agreements. As a condition to obtaining the DIP Facility (defined below), the Company seeks to transfer the management of those accounts to the DIP Agent (defined below) without incurring the expenditures necessary to transfer those accounts.

51. As of the date of this Affidavit, each of the companies comprising the American Subsidiaries owns and maintains a bank account at a Canadian chartered bank in Vancouver, British Columbia which maintains such funds on deposit.

52. The Cash Management System is managed by the head office in Richmond British Columbia, in conjunction with the local entity finance departments. By establishing the Cash Management System and by centralizing control over the Petitioner Parties' cash management arrangements, Catalyst is able to facilitate cash forecasting and reporting, monitor collection and disbursement of funds and maintain control over the administration of various bank accounts required to effect the efficient collection, disbursement and movement of cash. The Cash Management System is essential to the orderly management of the Company's business affairs. In the view of Senior Management, a significant change to the current system would be seriously

disruptive to normal operations. Accordingly, the Petitioner Parties intend to maintain the Cash Management System, as modified pursuant to the DIP Facility (defined below), throughout the course of this CCAA proceeding.

Outstanding Debt Obligations

53. As set out in greater detail in the Petition, Catalyst has substantial operations that are the result of a history of business and growth. The growth of Catalyst throughout the first half of the 2000s was achieved in part through Catalyst's incurrence of debt. Catalyst's ability to repay and service that debt load has been significantly impaired by the significant and more rapid than expected declines in demand for its products and the unforeseen global financial instability. Interest payments and payments to address solvency deficiencies in its pension plans have diverted funds away from manufacturing, product development, sales, marketing and other critical business development activities.

54. The Company's indebtedness limits its ability to plan for or to react to changes in its business and the industry. It also increases Catalyst's vulnerability to adverse economic and industry conditions and has limited Catalyst's ability to obtain alternative financing for debt reduction, working capital requirements, capital expenditures, acquisitions, general corporate and other purposes. Finally, it places the Company at a disadvantage relative to its competitors, most of which have less indebtedness or greater access to financing.

55. Two of the Company's significant secured creditors are the lenders under the ABL Facility (the "**ABL Lenders**") and the holders of the 2016 Notes.

The ABL Facility

56. The ABL Facility is a revolving line of credit that the Company has used for various financial needs. The ABL Facility is a \$175 million facility. The ABL Facility provides Catalyst with liquidity for working capital and general corporate purposes. In addition to a line of credit, the ABL Facility provides for letters of credit and other bank services. Availability under the ABL Facility is determined by a borrowing base calculated primarily on eligible accounts receivable and eligible inventory less certain reserves. As of January 27, 2012, the

borrowing base was approximately \$150 million. The Company has only drawn on the ABL Facility as necessary. As of January 27, 2012, the Company had drawn approximately \$63 million and approximately \$32 million issued through letters of credit.

57. Interest on the drawings of the ABL Facility is at the prime rate for drawings in Canadian currency and the US prime rate minus 0.25% for American currency drawings. The fees for the letters of credit issued under the ABL Facility are calculated at 2.5%.

58. The ABL Facility is secured by a first priority charge on the Petitioner Parties' current assets including accounts receivable, inventories, cash, and a second priority charge over those assets subject to the first priority charge of the 2016 Notes, as described in the Petition. There are certain assets such as certain contracts and equipment and financing leases, and the Company's interests in joint venture projects including Powell River Energy Inc., that are excluded from the security charge ("**Excluded Assets**").

59. From and after the filing date, as discussed below, it is the Company's intention to use accounts receivable to first pay down the amount drawn from the ABL Facility and, second, to cash collateralize the letters of credit issued under the ABL Facility that cannot be transferred to, or issued under, the DIP Facility (defined below). The Company expects to pay off the ABL Facility in full in approximately four weeks from the date of filing.

2016 Notes

60. As of December 31, 2011, the Company owed the holders of the 2016 Notes US\$390 million. Discussions have taken place, and continue, with representative holders of the 2016 Notes (the "**Representative 2016 Noteholders**") and their advisors concerning the potential restructuring alternatives for the Company, including proposals that relate to the restructuring of both the 2016 Notes and the 2014 Notes. The discussions have at various stages included both the 2016 Noteholders and the representative holders of the 2014 Notes (the "**Representative 2014 Noteholders**") and their respective counsel and financial advisors.

61. The discussions referred to in paragraph 60 have been ongoing for several months and continue as of the date of this Affidavit. The Company is optimistic that these discussions will result in a restructuring plan that will achieve the Company's objectives in initiating this process.

62. In the context of the restructuring discussions with the Representative 2014 Noteholders and the Representative 2016 Noteholders, Catalyst has agreed to pay the separate legal fees of the Representative 2014 Noteholders and the Representative 2016 Noteholders. In addition Catalyst has agreed to pay certain fees and expenses of the financial advisors of the Representative 2014 Noteholders and Representative 2016 Noteholders.

63. Additionally, in the context of the restructuring discussions with the Representative 2014 Noteholders and the Representative 2016 Noteholders, the Company's Directors (defined below) came to the conclusion that it would not be in the Company's interest to make the December 15, 2011 interest payment contemplated by the 2016 Note Indenture. The 2016 Note Indenture contains a provision whereby if that interest payment is not paid by, or on January 17, 2012, that non-payment could constitute an event of default pursuant to the 2016 Note Indenture. Other than that interest payment, the Company is current in respect to its obligations pursuant to the 2016 Notes, the 2014 Notes, and generally its other creditor obligations, up to the date of the filing of these proceedings.

64. By way of Intercreditor Agreement dated as of March 10, 2010, as amended (the "**Intercreditor Agreement**") the respective priorities of the security granted under the ABL Facility and the 2016 Notes over the assets of Catalyst were agreed to. Attached as **Exhibit "D"** is a copy of the Intercreditor Agreement (including the May 31, 2011, Agreement Of Successor To Be Bound).

Significant Unsecured Creditors

65. The Company owes various other amounts to unsecured creditors. The most significant unsecured creditors are the holders of the 2014 Notes, who are owed in the aggregate US\$250 million. The 2014 Notes are unsecured notes issued pursuant to an Indenture dated March 23,

2004. Interest at $7\frac{3}{8}\%$ is payable on the principal amount of those Notes and the next semi-annual interest payment of approximately \$9 million is due on April 1, 2012.

66. As of January 12, 2012, the Company had unsecured trade debt in the approximate amount of \$80 million in respect of trade and supply obligations arising in the normal course of business. The Company intends to pursue a restructuring that will result in the payment of all trade creditors for supplies and services provided, including those provided prior to the filing date, however at this time the Company cannot ensure that such an outcome will result.

67. As of December 31, 2011, the amount of accrued vacation pay the Company owes to its employees was approximately \$23 million.

Pension Plans

68. The Company maintains a variety of registered and unregistered pension plans.

69. In 2010, Catalyst made cash payments of approximately \$35.7 million towards its registered and unregistered pension plans and other post-employment benefits. In 2011, the Company made payments of approximately \$42.3 million for current and past service costs. In addition, the Company is required to make additional contributions to the registered pension plans in order to address their solvency deficits. As such, these plans and other post-employment benefits represent a significant use of the Company's available funds.

70. The Company is current on all required pension payments including special payments prescribed by the B.C. Superintendent of Pensions.

Registered Plans

71. The Company maintains three Canadian registered defined benefit pension plans for its Canadian employees:

- (a) Catalyst Paper Corporation Retirement Plan for Salaried Employees, B.C. Reg. No. 85400-1 (the "**Salaried Plan**");

- (b) Catalyst Paper Corporation Retirement Plan "A", B.C. Reg. No. 85944-1 ("Plan A"); and
- (c) Catalyst Paper Corporation Retirement Plan "C", Can. Reg. No. 55234 ("Plan C").

72. The Salaried Plan is the umbrella plan for the Company's non-union employees and provides a pension based on years of service and earnings. As of January 1, 2010, the employees in the Salaried Plan ceased to participate in the defined benefit segment of the Salaried Plan and began to participate in the defined contribution segment of the Salaried Plan. Salaried employees hired after January 1, 1994 enrolled in the defined contribution segment of the Salaried Plan.

73. As at December 31, 2010, the Salaried Plan had a market value of approximately \$284 million and a deficit as measured on a solvency basis of approximately \$73.5 million. As at December 31, 2010, there were 1,477 members of the defined benefit portion of the Salaried Plan and 572 members of the defined contribution portion of the Salaried Plan. The Company made total contributions to the Salaried Plan in 2011 of approximately \$8.5 million.

74. In October 2009, the B.C. Superintendent of Pensions granted the Company a five-year extension of the time period to make special payments for solvency deficiencies.

75. By letter dated December 14, 2011, the Financial Institutions Commission of B.C. ("FICOM") has proposed a modified schedule to address the solvency deficiency in the Salaried Plan that involves smaller special payments in each year, plus additional amounts determined in relation to the Company's EBITDA. However, FICOM states that this modification, if accepted and implemented prior to a CCAA filing, will be automatically cancelled upon a filing. Attached as **Exhibit "E"** is that letter sent by FICOM to me.

76. Plan A was developed under predecessor employers for certain unionized employees. It is now generally used by the Company to provide early retirement subsidized pensions or additional pensions to unionized employee. As at December 31, 2010, Plan A had a market value of approximately \$12 million and a solvency deficit of approximately \$3.2 million. The

Company made total contributions (including solvency payments) to Plan A of approximately \$0.5 million in 2011. As at December 31, 2010, Plan A had a total of 401 members. No active employees are members of Plan A. As far as the Company is aware, Plan A currently includes eleven retired former or retired employees who reside outside of British Columbia. The retirees receive their payments from CIBC Mellon Trust Company, who acts as trustee.

77. All of the above deficits are calculated on the basis of current interest rates. A modest increase in market interest rates will significantly reduce the calculated deficits.

78. The Company intends to make all normal cost payments during the restructuring. At present, the normal cost payments are paid monthly in arrears and are included in the Cash Flow Forecast (defined below). The Company did make payments of \$8,991,979 in 2011, including a special cost payment of \$4,843,651 in December 2011. In addition the Company has made a special cost payment of approximately \$2.7 million due on January 31, 2012 and such payment is included in the Cash Flow Forecast (defined below). The Company hopes to emerge from the CCAA process before a April 30, 2012 special costs payment is due.

79. Plan C was a plan put in place by a predecessor employer and is fully funded. As of December 31, 2010, this plan had a surplus of \$179,000 on a solvency basis.

80. The Company's Canadian unionized employees are members of a union-sponsored, industry-wide pension plan to which Catalyst contributes a pre-determined amount per hour worked by an employee. The Company is not the administrator of this plan and has no unfunded obligations under it.

81. I understand that the Cash Flow Forecast (defined below) accounts for all normal payments and special payments in respect of the above pension plans that the Company may be required to pay during the period covered by the Cash Flow Forecast.

82. To date, the Company has taken no steps to wind up any of its registered or unregistered pension plans. Currently, the Company does not intend to wind up any of its registered pension plans through the CCAA process.

Unregistered Benefits and Plans

83. The Company is obliged to pay individual supplementary amounts to former executives who retired with entitlements under the supplemental plan of a predecessor company. The Company pays approximately \$10,000 per month maintaining this plan. As of December 31, 2010 the unfunded liability was actuarially calculated as \$564,000.

84. The Company also administers the Catalyst Paper Corporation Supplementary Retirement Plan for Former Pacifica Papers Inc. Employees, which the Company also pays approximately \$10,000 per month to maintain. As of December 31, 2010, the unfunded liability was actuarially calculated at \$1,817,000.

85. Catalyst also maintains a supplemental retirement plan for senior executives, which had a deficit of \$17.1 million as of December 31, 2010. This plan is unfunded but secured by a letter of credit held by CIBC Mellon Trust pursuant to a trust agreement that requires CIBC Mellon Trust to call the letter of credit on the first knowledge of insolvency. This is the only unregistered pension plan with a security feature.

86. In 2011, the Company made final payments covering its obligations with respect to winding up an American employees' defined benefit pension plan.

87. The Company also maintains an unregistered bridge benefit arrangement for former Canadian hourly employees that, due to early retirement, are not covered by union pension plans. As at December 31, 2010, the obligation under this arrangement was approximately \$50.3 million. The Company paid approximately \$5.9 million in payments to beneficiaries under this arrangement in 2011.

Pension Committee

88. Catalyst has taken proactive measures to ensure that its pension administrative committee (the "**Pension Committee**") can meet the Company's duties in respect of the members and other beneficiaries of the Company's registered pension plans in the event of a CCAA filing, even if it means taking positions adverse to the Company. The Company will remain the administrator of

the registered pension plans unless the B.C. Superintendent of Pensions appoints the Pension Committee or another body as administrator in its place. The Company intends to fulfill the duties of the administrator, to the standard of a fiduciary, through the appointment, maintenance and empowerment of the Pension Committee to perform them on its behalf.

89. Catalyst's Pension Committee consists of several members of company management and outside appointees. It does not contain of any members of Senior Management, or any other individual who would be directing the affairs of the Company in the event of a CCAA filing.. This measure was implemented in the Fall of 2011 in order to avoid conflicts of interest between Catalyst's role as a pension plan administrator and Senior Management's role in managing the Company through financial difficulty. Prior to the announcement of the Company's filing for CCAA protection today, to my knowledge, no member of the Pension Committee is aware of the Company's intentions to file this Petition for protection pursuant to the CCAA a this time. It is likely that the fact that discussions are ongoing with the Representative 2016 Noteholders and the Representative 2014 Noteholders has come to the attention of some members of the Pension Committee because representatives of certain financial advisors and lenders have met with Senior Management at the Company's head office and as a result of recent press releases concerning the RSA (defined below) and the CBCA court filing.

90. I understand that this Affidavit and other materials will be served upon the Pension Committee, FICOM, CIBC Mellon Trust and Bill Sharkey (as president of the Catalyst TimberWest Retired Salaried Employees Association) so that the pension beneficiaries receive notice of these proceedings. These individuals and entities are the principal stakeholders, or represent the principal stakeholders, of the Company's pension plans. Notice of these CCAA proceedings may also be placed in local and national newspapers.

91. In the event of a CCAA filing, Catalyst, through a resolution of the board of directors of CPC, will grant the Pension Committee full administrative powers over the pension plans, including the powers to retain counsel and, if the Pension Committee considers it necessary, to take positions adverse to those of Senior Management. The Company is prepared to fund legal fees on behalf of the Pension Committee on the basis that the Pension Committee is found by

this Court to be the appropriate body to represent all the beneficiaries of the Company's pension plans. The terms of reference granting the Pension Committee full administrative powers also contemplate that the Company may request that the B.C. Superintendent of Pensions recommend to the Minister of Finance that the Pension Committee be formally named the administrator of the registered plans.

92. The retirees under Catalyst's pension plans reside in various jurisdictions throughout British Columbia and elsewhere in Canada including Vancouver, Prince George, Nanaimo and Victoria. Many of these individuals are represented by a group known as the Catalyst TimberWest Retired Salaried Employees Association (the "**Salaried Pension Association**") with Mr. Sharkey acting as President. I am aware that, in the past, Mr. Sharkey has sent correspondence to the Company and made submissions to FICOM on behalf of the Salaried Pension Association.

The Financial Position of the Company

93. The Company's financial reporting is done on a consolidated basis. Attached as **Exhibit "F"** is a copy of the Company's audited consolidated financial statements for the year ending December 31, 2010. Attached as **Exhibit "G"** is a copy of the Company's interim consolidated financial statements for the nine months ending September 30, 2011.

Assets

94. As of September 30, 2011, the Company had total consolidated assets with a net book value of approximately \$1,450.2 million (a decrease from \$1,696.2 million as at December 31, 2010 and \$2,090.8 million as at December 31, 2009). This included consolidated current assets of \$340.7 million and consolidated non-current assets of \$1,109.5 million.

95. As of September 30, 2011, the consolidated book value of the Company's current assets consisted of the following:

- (a) Cash and cash equivalents: \$17.8 million;
- (b) Accounts receivable: \$156.0 million;

- (c) Inventories: \$142.4 million; and
- (d) Prepaids and other: \$24.5 million.

96. As of September 30, 2011, the Company's consolidated non-current assets consisted of the following:

- (a) Property, plant and equipment: \$1,082.9 million; and
- (b) Other assets: \$26.6 million.

97. Catalyst owns several significant properties in Canada and the United States. Three of the Canadian properties are the lands and facilities associated with mills that are operating. One operation which has been permanently closed, the Elk Falls Mill, is also on property currently owned by the Company. Catalyst also leases several properties in Canada and the United States including the space for its head office in Richmond, an office in Nanaimo, the Recycling Facility and the Distribution Centre. As of the date of this Affidavit, the Company is not in arrears with respect to its property taxes. Attached as **Exhibit "H"** is a table listing the real properties owned and leased by the Company.

Liabilities

98. As of September 30, 2011, the Company had total consolidated liabilities with a net book value of approximately \$1,314.6 million (an increase from \$1,292.8 million as at December 31, 2010 and \$1,295.2 million as at December 31, 2009). This included consolidated current liabilities of \$178.7 million and consolidated non-current assets of \$1,135.9 million.

99. As of September 30, 2011, the Company's consolidated current liabilities consisted of the following:

- (a) Accounts payable and accrued liabilities: \$177.7 million; and
- (b) Current portion of long-term debt: \$1.0 million.

100. As of September 30, 2011, the Company's consolidated non-current liabilities consisted of the following:

- (a) Long-term debt: \$840.1 million;
- (b) Post-retirement employee benefits and pension obligations: \$263.9 million;
- (c) Other long-term obligations: \$17.9 million;
- (d) Future income taxes: \$4.4 million; and
- (e) Deferred credits: \$9.6 million.

101. Although the long-term debt and employee future benefits are categorized as non-current, they are significant burdens preventing the Company from operating on a going concern basis as discussed above.

Restructuring Efforts to Date

102. Catalyst has faced increasingly challenging business conditions as the demand for, and price of its principal product – mechanical printing papers – has experienced declines amplified by the effect of uncertain financial markets and the recent economic downturn.

103. Catalyst is currently facing financial difficulties because it lacks adequate liquidity to satisfy long-term debt obligations. The Senior Management has considered and pursued a wide variety of cost-reduction, financing and cash generation alternatives in an effort to address these short and long-term liquidity issues and address the capital structure concerns.

104. Catalyst has solicited and pursued a wide variety of alternative cost-reduction, restructuring, financing and strategic alternatives. These initiatives included:

- (a) reducing fixed and operational costs across all mills;
- (b) reduced corporate staff and salaried employee benefits;
- (c) improving its product mix;
- (d) selective investment in capital projects with short pay-back periods;
- (e) closing the Elk Falls Mill in July 2010 after curtailing its production as of February 2009;
- (f) closing the Recycling Facility in July 2010, which had been idled since February 2010 and is now surplus to its requirements;

- (g) restructuring the ABL Facility by amending it to address the reduced working capital levels resulting from the above closures and to remove the fixed assets of the Snowflake Mill from the borrowing base;
- (h) made numerous attempts to renegotiate competitive collective agreements with the Canadian unions;
- (i) formal and informal discussions with strategic investors concerning the reorganization of the Company's corporate and capital structure; and
- (j) ongoing discussions with the Representative 2014 Noteholders and Representative 2016 Noteholders.

105. In October 2011, the Petitioner Parties retained Perella Weinberg Partners LP ("**Perella**") as financial advisor and they, along with the Company's other advisors, have provided significant assistance to the Company in developing a Plan to present to the Company's affected creditors. The Company believes that it is important to the Company's restructuring efforts that the Company continue its engagement of Perella.

106. Catalyst has engaged in extensive negotiations with certain of their stakeholders in an effort to address its challenges. These negotiations have failed to culminate in a viable alternative to a CCAA court-protected restructuring at this time. However, discussions continue and there is a reasonable prospect that a restructuring agreement can be reached in the near term.

The CBCA Court Filing

107. As outlined in the Petition, on January 17, 2012 Catalyst filed a Petition with the Court in respect of a proposed CBCA arrangement (the "**CBCA Court Filing**"). Prior to the CBCA Court Filing, the negotiations with the Representative 2016 Noteholders and the Representative 2014 Noteholders resulted in a proposed arrangement term sheet and Restructuring and Support Agreement dated as of January 14, 2012 (the "**RSA**").

108. The RSA automatically terminates if: (a) by January 31, 2012 holders of at least 66 2/3% of the outstanding principal amount of both the 2016 Notes and 2014 Notes have not executed the RSA or one or more joinder agreements; or (b) if by January 31, 2012 either of the Pulp, Paper and Woodworkers of Canada and the Communication, Energy and Paperworkers Union of Canada, shall not have ratified new labour agreements in respect of Catalyst's three B.C. mills.

109. Neither of the above conditions have been satisfied and, accordingly, it is expected that the RSA will terminate.

Requirement for CCAA Protection

110. Having regard to its financial circumstances, Catalyst has determined that it is necessary to seek protection under the CCAA in order to preserve enterprise value and continue going concern operations as these discussions are pursued. In addition, Catalyst seeks to continue operational restructuring alternatives while under CCAA protection, including disclaiming certain contracts, reducing or restructuring its obligations, and reducing operating costs. Any such restructuring alternative will be undertaken for the purpose of further enhancing Catalyst's long-term financial health, liquidity and competitiveness.

Relief Sought

111. Over the course of the past several months, the Company has made good faith efforts to restructure its capital and address its liquidity position outside of an insolvency proceeding. During that time, Catalyst's liquidity position has continued to deteriorate. The large degree of uncertainty, including insurmountable legal and business impediments, and the lack of available liquidity required to finance the extensions have made it impossible to implement its recapitalization outside of a Court process.

Defaults, Waiver and Stay of Proceedings

112. As set out above, on December 15, 2011, the Company deferred an interest payment of US\$21 million on the 2016 Notes. The Company had until January 17, 2012 to pay this amount before triggering an event of default. An event of default would allow the holders of the 2016 Notes to declare the US\$390 million principal amount and all accrued interest on the 2016 Notes immediately due and payable and to begin proceedings to realize upon the security held in connection with the 2016 Notes. Pursuant to the terms of the RSA, each consenting noteholder agreed that unless the RSA was terminated it would not exercise any right or remedy for the enforcement, collection, acceleration or recovery of any of the 2016 Notes or 2014 Notes that was materially inconsistent with the term sheet attached to the RSA. As a result of the RSA, the

interest payment of US\$21 million in respect of the 2016 Notes was not required to be paid by January 17, 2012.

113. The Credit Agreement under the ABL Facility provides that it is an “**Event of Default**” to fail to make any payment of principal or interest, regardless of amount, in respect of any Material Indebtedness, when such a failure continues after the applicable grace period specified. A default or failure to pay an accelerated debt or an interest payment under either of the 2016 Indentures or the 2014 Indenture would arguably amount to an Event of Default under the ABL Facility.

114. If an Event of Default occurs under the ABL Facility, the ABL Facility may be terminated or other remedies may be exercised. On or about January 16, 2012, the Petitioner Parties entered into a waiver agreement whereby the ABL Lenders agreed to waive and forbear with respect to events of default in respect of the CBCA Court Filing and the non-payment of interest under the 2016 Indenture, until January 31, 2012.

115. As set out in greater detail in paragraph 85 of the Petition, the Company has experienced trade compression as a result of its restructuring steps. The trade creditor pressures described above increased materially yesterday. Notwithstanding a stay of proceedings order under the CBCA proceedings, the Company received numerous calls and communications from numerous suppliers refusing continued supply without cash or advance cash payments. The stay order under the CBCA is not a familiar order to the Company’s suppliers and it has not proven to be effective in dealing with supplier issues, despite the fact that the Company has paid supplier accounts on existing credit terms. The reaction of the suppliers followed the news of a negative ratification vote by the Pulp, Paper and Woodworkers of Canada, Local 8. The termination of the RSA will, in my view, increase trade creditor pressure even more. The Company cannot continue stable operations without the protection of a CCAA order.

116. The Company requires a stay of proceedings under the CCAA to ensure that it can complete its restructuring without defending itself from any proceedings brought by the holders of the 2016 Notes or other creditors.

117. The Petitioner Parties are concerned that, in light of declining revenues and the current liquidity challenges at Catalyst, an uncontrolled material adverse change to the Company's business could further erode its enterprise value to the detriment of all stakeholders. The Petitioner Parties therefore require a stay of proceedings and other protections provided by the CCAA to restructure their affairs and pursue reorganization through a Plan. In particular, the Petitioner Parties require a stay of proceedings to prevent creditors from making demands or terminating contracts. Any significant demand would likely result in the cessation of going concern operations for the Petitioner Parties absent a stay of proceedings. Contract termination would impair the Company's ongoing revenue stream. The Petitioner Parties are requesting an initial stay of proceedings until February 14, 2012.

The Proposed Monitor

118. PwC was retained by the Company in late October 2011 with a view to acting as Monitor in the event of a CCAA filing and to assist the Company in both understanding the CCAA process and in preparing for a CCAA filing in the event that a filing should become necessary. In the course of fulfilling its mandate, PwC has become familiar with the business and its current financial challenges. PwC has been aware of the potential of a CCAA filing and I am advised by Michael Vermette of PwC that PwC has maintained its independence so that it can properly execute its duties as Monitor. Subject to court approval, PwC has consented to act as the Monitor of the Petitioner Parties in this CCAA proceeding and in my view it is a fit and proper organization to do so.

119. At no time in the past two years has PwC or any of its partners or managers been the Company's auditor, accountant or employee of the auditor or accountant of the Company. PwC is independent from the Company's financial advisor.

120. Currently and for the past two years, neither PwC nor any of its partners or managers is a director, officer or employee of the Company or related to the Company or to any former director or officer of the Company.

121. Furthermore, PwC is not a trustee under a trust indenture issued by the Company or any person related to the Company, and is not a holder of a power of attorney granted by the Company or by any person related to the Company. PwC is not related to a trustee or holder of a power of attorney noted above.

Cash Flow Forecast

122. The Company, with the assistance of the Proposed Monitor, has prepared a cash flow forecast through April 30, 2012 (the “**Cash Flow Forecast**”). Attached as **Exhibit “I”** is a copy of the Cash Flow Forecast.

123. As set out in the Cash Flow Forecast, the Company’s principal uses of cash during the next thirteen weeks will consist of the payment of ongoing costs of day to day operations and professional fees and disbursements in connection with these CCAA proceedings.

Interim Financing

124. Because of the current liquidity challenges, and as demonstrated in the Cash Flow Forecast, the Petitioner Parties require interim financing to implement the restructuring alternatives and to continue operations. Catalyst will require funding beyond its own cash resources to fund operations during the proceedings, otherwise the Company may be forced into bankruptcy. Interim financing will enhance the prospects of the Company negotiating a viable Plan.

125. As previously stated, the ABL Facility is a \$175 million facility. The Company considers that it is appropriate to have the same level of financing available to it while under the CCAA process to ensure all creditors are provided the comfort of knowing that the Company’s financial resources are not impaired by this filing. It is necessary for the Company to have the full amount available in order to deal with any potential unforeseen adverse circumstances or a proceeding lengthier than forecast or desirable.

126. It is anticipated that Catalyst will require debtor in possession financing in the amount of \$175 million (the “**DIP Financing**”) to allow payment of financial obligations during the period

of the stay, including obligations to employees and trade creditors, as well as to allow the Company to properly retain both the Proposed Monitor and legal counsel to advise in relation to restructuring options.

127. The Company was offered DIP Financing from the same lenders as the ABL Facility on comparable terms. As a result, Catalyst did not canvas the market for other potential lenders. Because the offer from the DIP Lenders (defined below) did not require any alteration of the Company's accounts and included similar terms to the use of the ABL Facility, including the full flexibility of the letters of credit, the Company was of the opinion that there was no commercial logical advantage to pursuing other arrangements for DIP Financing. Any other offer would have required a great deal of expense to pursue, could have required a new cash management system and would have had to deal with the security granted under the ABL Facility.

128. Subject to certain conditions, including the granting of the requested Initial Order, Catalyst has negotiated a debtor in possession credit agreement ("**DIP Credit Agreement**") with various lenders (the "**DIP Lenders**") through JPMorgan as Administrative Agent (the "**DIP Agent**"), whereby the DIP Lenders agree to provide the Company with an interim financing facility (the "**DIP Facility**"). Catalyst and the DIP Lenders have agreed to the material terms pursuant to which the DIP Facility will be made available; however, the actual DIP Credit Agreement is still being finalized.

129. In connection with the DIP Credit Agreement, the Company and the DIP Agent have executed a commitment letter with an attached term sheet setting out the terms and conditions that will be encapsulated in the DIP Credit Agreement (the "**Commitment Letter**"). Attached as **Exhibit "J"** is an executed copy of the Commitment Letter.

130. The Company has agreed to certain terms and conditions with the DIP Agent for their services by way of letter (the "**Fee Letter**"). The Fee Letter is attached as an exhibit to a second affidavit that I have affirmed in this proceeding (the "**Second Affidavit**") to be filed under seal and kept confidential. The nature of the information contained in the Fee Letter is sensitive and confidential to both the Company and the DIP Agent. Those documents disclose certain confidential and sensitive details concerning the Company's assets and the Company's

arrangement with the DIP Lenders and the DIP Agent. As part of the restructuring, the Company may seek certain recapitalizations. Any prospective investors may use the details in the Fee Letter to provide them with leverage in their negotiations with the Company for more attractive terms. As such, disclosure of the Fee Letter, as part of the public record, may negatively affect the Company's ability to pursue some of its strategic options in its restructuring efforts, to the detriment of the Company and all of its stakeholders.

131. For these reasons and others explained later in this Affidavit, the Company seeks an Order sealing the Second Affidavit

132. The DIP Facility provides revolving line of credit lending services to the Company together with services related to the Company's requirement to issue letters of credit, certain derivative arrangements related to currency exchange rates and other banking services.

133. The DIP Facility is proposed to be secured by a Court-ordered security interest, lien and charge (the "**DIP Lenders Charge**") on all of the present and future assets, property and undertaking of the Petitioner Parties (the "**Property**") that will secure all post-filing advances. The DIP Lenders Charge is to have priority over all other security interests, charges and liens other than the Permitted Priority Encumbrances (defined below).

134. The security granted by the Petitioner Parties in favour of the DIP Lenders pursuant to the DIP Facility will charge (i) all of the collateral charged by the security granted by the Petitioner Parties in favour of the ABL Lenders; and (ii) all other real and personal, tangible and intangible, assets of the Petitioner Parties other than any equity interests in certain joint ventures and certain assets of any such joint ventures. The DIP Lenders will have security over all of the assets of the Company but will only have a first priority charge over the property of the Petitioner Parties that the ABL Lenders had priority over as against the 2016 Noteholders and the property of the Petitioner Parties that is not charged by the 2016 Noteholders. The DIP Credit Agreement contains a concept of "**Permitted Priority Encumbrances**" to recognize that the priority of the DIP Lenders' security pursuant to the DIP Facility is subject to permitted prior encumbrances. Among the Permitted Priority Encumbrances are the Administrative Charge, the security granted to the 2016 Noteholders in respect of the non-current assets that had ranked in

priority to the ABL Facility, purchase money security interests to the extent of the principal obligations outstanding as at the date of the Initial Order, and deemed trusts arising under subsections 227(4) or (4.1) of the *Income Tax Act*, subsections 23(3) or (4) of the *Canada Pension Plan* or subsection 86(2) of the *Employment Insurance Act*, and certain other secured charges which are not sought to be the subject of the priority of the DIP Facility. Accordingly, it is my understanding that, except for the ABL Lenders, no existing secured creditor's interest is affected by the DIP Facility because the DIP Facility does not create a priority for the DIP Facility over any charge other than the priority that is already enjoyed by the ABL Lenders and creates a charge on assets which are not subject to an existing charge.

135. There is a specific provision of the DIP Credit Agreement that recognizes the priority for existing purchase money security interests over the DIP Lenders Charge.

136. The DIP Facility will also take priority over all pension claims, employee claims for unpaid wages and vacation pay, and all normal cost payment arrears, as well as the claims of the holders of the 2016 Notes over working capital assets and intellectual property.

137. I understand that the DIP Lenders are not willing to advance the DIP Facility without the requested priority, including this Court's confirmation of a priority over any deemed trust arising on the winding up of any pension plans for solvency deficiencies or arising from any provincially-created trust, lien or charge, and unless payment of all accounts receivable are used to first reduce or cash collateralize the ABL Facility.

138. The DIP Facility is arranged with the DIP Lenders so that there is an initial availability between the initial filing date of the Petition and the date that is on or before 58 days thereafter (the "**Initial Availability**"). The Initial Availability is an amount of the DIP Facility being made available to the Petitioner Parties that is less than the full \$175 million of final availability and reflects the circumstances facing both the Company and the DIP Lenders of the need (1) to seek an initial DIP Order in Canada and the United States, (2) to have those orders confirmed by the court in confirmation hearing processes in both jurisdictions and (3) to continue operations while awaiting the expiry of any appeal periods from those confirming orders. It is the Company's

view that the amount reserved for Initial Availability will allow the Company to maintain business as usual until final availability.

139. Catalyst has obtained the consent of the ABL Lenders to obtain the DIP Financing. Because the DIP Agent is also the Petitioner Parties' senior secured creditor and the DIP Facility has the same priority relating to the 2016 Notes or the ABL Facility, the Petitioner Parties are of the view that there will be no prejudice to any existing secured creditor.

140. There are a variety of conditions to the Initial Availability pursuant to the DIP Facility including the following:

- (a) the loan parties execute and deliver certain financing documentation including the DIP Credit Agreement;
- (b) the Initial Order in this proceeding is made in a form and substance satisfactory to the Administrative Agent under the DIP Facility and that that Order contain a DIP Facility approval that approves advances under the Initial Availability, the granting of a DIP charge with the priority contemplated by the DIP Facility, the authorization of the DIP Lenders fees contemplated by the DIP Facility, and a provision authorizing the collection of accounts receivable first be applied to reduce or cash collateralize as applicable the pre-petition ABL outstanding amounts and amounts required to cash collateralize letters of credit issued pursuant to the ABL Facility if outstanding;
- (c) approval of the Cash Flow Forecast; and
- (d) removal of what is referred to as the US availability block (the reduction in availability related to current assets located in the United States) on the basis of the Company satisfying certain conditions related to those assets contained in the DIP Credit Agreement.

141. As can be noted from the Cash Flow Forecast:

- the total operating receipts exceeds the total operating disbursements over the thirteen (13) week period by \$5.0 million; and
- the total net receipts (including non-operating disbursements) over the thirteen week period amounts to a deficit of \$22.9 million.

142. The Cash Flow Forecast indicates that there will be a net draw on the DIP Facility of approximately \$46.5 million by the week ending February 19, 2012 and \$75.7 million at the end of the thirteen week period.

143. In accordance with the requirements of the DIP Credit Agreement, the Petitioner Parties will use accounts receivable to pay down or cash collateralize pre-filing obligations outstanding under the ABL Facility. As of December 31, 2011, the accounts receivable balance outstanding to the Company was approximately \$135 million. The borrowers under the DIP Facility will make draws to fund, among other things, their working capital requirements. The Petitioner Parties will not use any advances under the DIP Facility to repay any indebtedness outstanding prior to the date of the commencement of this proceeding other than as sanctioned by this Court.

144. The Petitioner Parties propose that the Proposed Monitor will provide oversight and assistance and will report to the Court in respect of the Petitioner Parties' actual results relative to Cash Flow Forecast during this proceeding. Existing accounting procedures will provide the Proposed Monitor with the ability to track the flow of funds among the various Petitioner Parties.

145. The Petitioner Parties considered the best interests of all their stakeholders, including all pensioners and retirees, in securing the DIP Facility. The Company intends to continue making all normal cost payments and special payments under the pension plans, unless otherwise negotiated with the Pension Committee or approved by any plan resulting from this CCAA proceeding.

146. The Petitioner Parties are seeking approval of the proposed DIP Facility to accommodate their anticipated liquidity requirements during this CCAA proceeding. The proposed DIP Facility will provide additional assurances to the Petitioner Parties' creditors and other stakeholders that the Petitioner Parties will be able to continue going concern operations while pursuing the capital reorganization pursuant to the Plan.

The Administration Charge

147. PwC is prepared to act as Monitor during the CCAA proceeding and to assist the Company with preparation of cash flow projections and with all aspects in relation to a

restructuring pursuant to, and subject to, the terms of the Initial Order of the Court and the statutory provisions of the CCAA. If so directed by the Court, PwC is also prepared to monitor the operations of the Company, to provide direction and guidance to management during the CCAA restructuring period regarding the restructuring, and to generally assist the Company with the restructuring efforts.

148. The Company's solicitors, the Proposed Monitor, and the Proposed Monitor's solicitors are essential to the Company's restructuring. They have each advised that they are prepared to provide or continue professional services to the Company only if they are protected by a charge over the assets of the Company. Accordingly, the Company seeks to establish a priority charge over those assets in favour of its solicitors, the Proposed Monitor, and the Proposed Monitor's solicitors.

149. In connection with its appointment, it is contemplated that the Proposed Monitor, counsel to the Proposed Monitor, and counsel to the Company, will be granted a court ordered charge as security for their respective fees and disbursements relating to services rendered up to a maximum amount of \$1,500,000 with the priority set out in the Initial Order. This amount has been determined not on the basis of the total fees payable to these professionals during the proceedings but on an assessment of what could be an amount outstanding to these professionals at any given time in the proceedings.

Director and Officer Protections

150. The current directors of CPC are: Thomas S. Chambers, Kevin J. Clarke, William F. Dickson, Benjamin C. Duster, IV, Douglas P. Hayhurst, Denis Jean, Jeffrey G. Marshall, Alan B. Miller, Geoffrey Plant, and M. Dallas H. Ross (collectively, the "**Directors**"). The current officers of CPC are Kevin J. Clarke, David L. Adderley, Steve Boniferro, Lyn Brown, Tom Crowley, Brian Johnston, Robert H. Lindstrom, Alistair MacCallum, Robert L. Stepusin and me (collectively, the "**Officers**").

151. Attached as **Exhibit "K"** is a list setting out the Directors and Officers along with the profiles of the Directors and members of Senior Management.

152. A successful restructuring of the Company will only be possible with continuity of the Directors as well as continuity in the make-up of the Officers. As described in Exhibit K, the Directors have significant experience with the Company and the pulp and paper industry and their continuity is essential to the Company's ongoing viability.

153. The Officers are equally important to the Company as they have specialized expertise and experience with the Company and the pulp and paper industry generally. Over time, the Officers have developed relationships with suppliers, employees and other stakeholders that will be important to the restructuring process. These relationships are not easily duplicated or replaced.

154. The Company will benefit from the experience and expertise of the Directors and Officers which will be invaluable in assisting the Company through the CCAA process.

155. It is my understanding that in certain circumstances directors and officers can be held personally liable for certain of a company's obligations to the federal and provincial governments, including with respect to payroll remittances, harmonized sales taxes, goods and services taxes, withholding taxes, workers compensation remittances, etc. Furthermore, I understand it may be possible for directors and officers of a corporation to be held personally liable for certain wage-related obligations to employees.

156. The Company maintains directors' and officers' liability insurance through six separate policies (the "**D&O Insurance**") for the Directors and Officers. The current D&O Insurance provides \$100 million in coverage and expires on May 1, 2012.

157. In addition, there are also contractual indemnities which have been given by the Company to their Directors. On a cessation of going concern operations, the Company may not have sufficient funds to satisfy these indemnities should the Directors be found responsible for the full amount of the potential directors' liabilities.

158. The Directors have voiced significant concern with respect to potential personal liability if they continue in their current capacities. I am of the view that, in light of the potential for significant personal liability, some or perhaps all of the Directors will not continue their service

and involvement in the proposed restructuring unless the Initial Order grants a charge as security for the Company's obligations as described above.

159. I am advised by the Company's insurers, Chartis Insurance Company of Canada, Chubb Insurance Company of Canada, Liberty Mutual Insurance Company, Everest Insurance Company, Lloyd's Underwriters, and ACE INA Insurance, that if the Company was to file for CCAA protection, and if the insurers agreed to renew the D&O Insurance, there would be a significant increase in the premium for that insurance.

160. With the assistance of PwC, a calculation has been performed to estimate the quantum of the potential director and officer liabilities based on the number of employees, the Company's pay cycle and various other potential sources of personal liability such as source deductions and tax amounts. This amount could be in the range of approximately \$31 million depending on certain assumptions.

161. The Company proposes that a charge in favour of the Directors and Officers be granted in the amount of \$31 million (the "**D&O Charge**") to provide a reasonable level of protection to those directors and officers prepared to stay with the Company to see it through the CCAA process. The D&O Charge ensures that the Directors and the Officers will receive protection from liability if the D&O Insurance cannot be renewed due to an increase in premiums or if the Company cannot otherwise rely on the D&O Insurance. The Company believes that the amount of the D&O Charge is fair and reasonable in the circumstances and understands the Proposed Monitor is agreeable to the proposed amount of the D&O Charge and the priority of that charge as set out in the Initial Order.

162. The D&O Charge is vital to encouraging the continued participation in this CCAA proceeding of the Directors and Officers, who will provide necessary experience and stability to this process and guide the Company's restructuring efforts. It is critical that a level of continuity be maintained within the Company to ensure focus on achieving a restructuring plan that will benefit the Company's stakeholders. The D&O Charge will also provide significant assurances to the Company's employees that the payment of wages, vacation pay and other statutory

entitlements will be satisfied, as well as withholding and tax obligations owing to the federal and provincial or state authorities.

Key Employee Retention Program

163. The Company entered into a Key Employee Retention Program (“KERP”) with its senior management team in the Fall of 2011. The Directors approved the KERP in principle on October 31, 2011 and approved the form of the retention and change in control agreements on November 14, 2011. The facts and details of the KERP were disclosed to the 2016 Noteholders and the 2014 Noteholders prior to the execution of the RSA.

164. The KERP provides incentives for Senior Management to continue to remain employed by the Company in the unusual circumstances that face these executives. The likely restructuring plan for the Company will involve an exchange of debt for equity such that new entities will own and control the Company in the foreseeable future. The Senior Management team then has been working to restructure the Company to ensure its continued viability in circumstances where their own continued employment is in jeopardy.

165. To ensure these key individuals remained to complete the restructuring, the KERP has been put in place. It provides for incentive payments to the covered employees who remain employed with the Company at the end of 2012 and further incentives for those who remain employed by the Company at the end of 2013. There are further provisions which entitle the covered employees to termination pay consistent with their existing contractual or common law entitlement if their employment is terminated after a change of control of the Company. These obligations are presently secured by letters of credit issued under the ABL Facility. The Order sought seeks the Court’s permission to pay any entitlements to the covered employees which may become payable pursuant to the KERP during the period of these proceedings.

166. The full details of the KERP including contractual documents will be contained in the Second Affidavit which will be sought to be filed pursuant to a confidentiality order. It is neither the policy of the Company nor, from my understanding, companies generally to make the salaries of its employees publically known. Apart from privacy concerns of the employees who

are part of the KERP, such information would enable employers to attempt to outbid the Company for employees. Moreover, disclosure of the details of the KERP could create negative morale among the Company's other employees and may hamper the Company's bargaining with its employees.

167. The foregoing are additional reasons that the Company is seeking an Order that the Second Affidavit be filed under seal and kept confidential.

Requirement for Relief Requested

168. The Petitioner Parties are currently in a challenging financial position. After many years of success and growth, the Company has faced significant declines in sales. In spite of the efforts made over the past year and the strategic avenues pursued, the Company is no longer able to meet its financial obligations and requires the protections afforded by the CCAA while it seeks to restructure its affairs.

169. The Company is receiving numerous calls on a daily basis from stakeholders, including creditors, enquiring concerning payment in respect of outstanding obligations and making various other general inquiries about the financial condition of the Company. Many have required amended credit terms which have placed pressure on the Company's cash flow. As a result of these and other pressures, the business is vulnerable to creditors and suppliers taking actions detrimental to its viability.

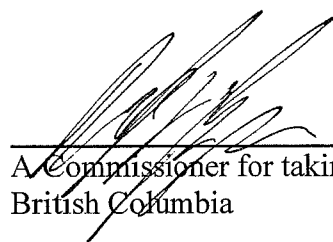
170. The stakeholders in a Catalyst restructuring are numerous and varied and include Catalyst employees, creditors, customers, suppliers, and the municipalities in which Catalyst's mills are located. If the Petitioner Parties are forced to liquidate, other dependent supplier companies may also be forced to liquidate. Additionally, over 2,000 employees may face unemployment. It is therefore in the interests of individual and corporate stakeholders, as well as in the public interest, that the Petitioner Parties be permitted to restructure their affairs as contemplated.

171. The Company is optimistic that a restructuring of the business will have the effect of significantly improving its long-term financial prospects while preserving value and permitting it to continue to operate as a going concern beyond the period of creditor protection.

172. The Directors and Senior Management are committed to guiding the Company through a successful restructuring. Retaining the Directors and Senior Management will provide critical stability in these otherwise uncertain times for the Company. It is anticipated that this stability will bolster consumer and market confidence in Catalyst's viability and enable the Petitioner Parties to maintain orderly operations and existing customer relations as well as maximize enterprise value throughout the course of the restructuring. Catalyst believes that the best way to preserve enterprise value for Catalyst and its stakeholders is for the Initial Order to be granted and a restructuring to be pursued through a plan under the CCAA.

173. The Petitioner Parties require the relief sought on an urgent basis. It is imperative that all of Catalyst's stakeholders, including its employees, suppliers and customers, have confidence that the Petitioner Parties will have the opportunity to leverage their existing expertise and resources to execute a business plan restoring the Catalyst's profitability and positioning them to achieve future successes. The granting of the stay of proceedings, and the supervision of the Company's restructuring by this Court, will facilitate the implementation of the Catalyst's strategies for preserving the value of their business enterprise for the benefit of all stakeholders.

AFFIRMED BEFORE ME at Vancouver,
British Columbia on January 31, 2012.



A Commissioner for taking Affidavits for
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