

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

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In re:	:	Chapter 15
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CATALYST PAPER CORP., <u>et al.</u> ,	:	Case No. 12-10221 (PJW)
	:	
Debtors. ¹	:	Jointly Administered
	:	
	X	

SECOND DECLARATION OF BRIAN BAARDA

I, Brian Baarda, hereby declare as follows:

1. I am the Vice President, Finance and Chief Financial Officer of Catalyst Paper Corporation (“CPC”), the authorized foreign representative of the above-captioned debtors (collectively, the “Debtors” and, together with the Debtors’ non-Debtor affiliates, the “Company”). I have held these positions since November 2009. I joined the Company in 1989 and have worked in several locations and held a number of senior accounting and analysis positions until moving to the operations side of the Company in 2001 as the pulp mill manager at

¹ The last four digits of the United States Tax Identification Number or Canadian Business Number of the Debtors, as applicable, follow in parentheses: (i) 0606890 B.C. Ltd. (2214); (ii) Catalyst Paper Corporation (1171); (iii) Catalyst Paper Energy Holdings Inc. (3668); (iv) Catalyst Paper General Partnership (6288); (v) Catalyst Pulp and Paper Sales Inc. (2085); (vi) Catalyst Pulp Operations Ltd. (4565); (vii) Catalyst Pulp Sales Inc. (4021); (viii) Elk Falls Pulp and Paper Ltd. (9493); (ix) Pacifica Poplars Ltd. (6048).; (x) Catalyst Paper Holdings Inc. (7177); (xi) Pacifica Papers U.S. Inc. (7595); (xii) Pacifica Poplars Inc. (9597); (xiii) Pacifica Papers Sales Inc. (7594); (xiv) Catalyst Paper (USA) Inc. (6890); (xv) Catalyst Paper (Recycling) Inc. (8358); (xvii) Catalyst Paper (Snowflake) Inc. (7015); (xvii) The Apache Railway Company (0017) (0606890 B.C. Ltd., Catalyst Paper Corporation, Catalyst Paper Energy Holdings Inc., Catalyst Paper General Partnership, Catalyst Pulp and Paper Sales Inc., Catalyst Pulp Operations Ltd., Catalyst Pulp Sales Inc., Elk Falls Pulp and Paper Ltd., and Pacifica Poplars Ltd., collectively, the “Canadian Debtors”) (Catalyst Paper Holdings Inc., Pacifica Papers U.S. Inc., Pacifica Poplars Inc., Pacifica Papers Sales Inc., Catalyst Paper (USA) Inc., Catalyst Paper (Recycling) Inc., Catalyst Paper (Snowflake) Inc. and The Apache Railway Company, collectively, the “U.S. Debtors”). The Debtors’ executive headquarters’ addresses are 2nd Floor, 3600 Lysander Lane, Richmond, BC V7B 1C3, Canada; 2101 Fourth Avenue, Suite 1950, Seattle, WA 98121; and Spur 277 N., Snowflake, AZ 85937.

the former Elk Falls Division until 2003. From 2003 to 2005, I held the position of Vice President, Supply Chain. From 2005 to April 2008, I was the Vice President of the Powell River Division of CPC. From April 2008 to November 2009, I was the Vice President of Operations.

2. I am authorized by the Debtors to make this declaration (the “Second Declaration”). I submit this Second Declaration in support of the Debtors’ contemporaneously-filed amended petitions and requests for relief in the form of an *Amended Motion for Provisional and Final Relief For Recognition of a Foreign Proceeding Pursuant to 11 U.S.C. §§ 105(A), 1517, 1519, 1520, and 1521* (the “Amended Recognition Motion”).² I am an individual over the age of 18 and, if called upon, would testify to all the matters set forth in this Second Declaration. Except as otherwise indicated, all facts set forth in this Second Declaration in support of the Debtors’ verified petitions under chapter 15 of the title 11 of the United States Code (the “Bankruptcy Code”) and the Amended Recognition Motion are based upon my personal knowledge, information supplied to me by other members of the Debtors’ management and professionals, or learned from my review of relevant documents or upon my opinion based upon my experience and knowledge of the Debtors’ industry, operations, and financial condition. If called upon to testify, I could and would testify competently to the facts set forth herein.

BACKGROUND

A. The Chapter 15 Filing

3. On January 17, 2012, the Debtors filed and served notice of their motion for protection (the “CBCA Proceeding”) under Canada’s *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 (as amended, the “CBCA”) before the Supreme Court of British Columbia

² Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Amended Recognition Motion.

(the “Canadian Court”). Pursuant to the CBCA, on January 17, 2012, the Canadian Court entered an interim order (the “Interim Order”) specifying such items as the manner for calling and holding a special meeting of the stakeholders (e.g., distribution of proxy materials, notice periods, and time and place of meeting), the persons entitled to vote at the meeting, classes of persons entitled to a separate class vote, and the acceptance thresholds for approval of the CBCA arrangement.

4. On January 17, 2012 (the “Petition Date”), the Debtors commenced their chapter 15 cases by filing verified petitions pursuant to section 1504 and 1515 of the Bankruptcy Code (collectively, the “Chapter 15 Cases”).

5. Due to subsequent developments in the CBCA Proceeding, as described in further detail below, on January 31, 2012, the Debtors filed and served their Petition to the Court for relief (the “CCAA Proceeding”) under Canada’s *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “CCAA”) before the Canadian Court. Pursuant to the CCAA, on January 31, 2012, the Canadian Court entered an initial order (the “Initial CCAA Order”) appointing PricewaterhouseCoopers Inc. (“PwC”) as monitor (“Monitor”) for the Debtors, and CPC as foreign representative of the Debtors. A copy of the Initial CCAA Order is attached to the Amended Chapter 15 Petitions (as defined below).

6. On the date hereof, the Debtors filed amended verified petitions (the “Amended Chapter 15 Petitions”) pursuant to section 1504 and 1515 of the Bankruptcy Code. Contemporaneously herewith, CPC has filed the Amended Recognition Motion seeking recognition of the CCAA Proceeding as a “foreign main proceeding” as defined in sections 1502(4) and 1517(b)(1) of the Bankruptcy Code or, in the alternative, recognition of the CCAA Proceeding as a “foreign main proceeding” with respect to the Canadian Debtors, and as a

“foreign nonmain proceeding” as defined in sections 1502(5) and 1517(b)(2) of the Bankruptcy Code with respect to the U.S. Debtors.

B. Background and Current Business Operations

7. The Company is the largest producer of mechanical printing papers in western North America. The Company produces paper and pulp for commercial printers, publishers and paper manufacturers in North America, Latin America, the Pacific Rim and Europe. The Company is the region’s only producer of lightweight coated paper and the world’s largest manufacturer of paper for telephone and other directories. The Company also makes market kraft pulp. The Company has manufacturing operations in British Columbia and in Arizona with a combined annual production capacity of approximately 1.9 million tons. The Company is listed on the Toronto Stock Exchange under the symbol TSX:CTL.

8. The Company was formed from the operations of several predecessor companies. British Columbia Forest Products Limited formed in 1946, which was subsequently purchased in 1987 by Fletcher Challenge Limited (“Fletcher Challenge”) of New Zealand. British Columbia Forest Products Limited subsequently changed its name to Fletcher Challenge Canada Limited and, in 1993, acquired the forestry business and assets of Crown Forest Industries Limited. In 2000, Norwegian paper company Norske Skogindustrier ASA purchased all of Fletcher Challenge’s worldwide pulp and paper assets, including its shares of Fletcher Challenge Canada Limited. Fletcher Challenge Canada Limited subsequently changed its name to Norske Skog Canada Limited (“Norske Skog Canada”). In 2001, Norske Skog Canada acquired Pacifica Papers and the two companies were merged. In 2003, shares of the company carrying on the Newstech Recycling business in Coquitlam, were acquired to in-source the supply of de-inked pulp. In October 2005, Norske Skog Canada Limited changed its name to Catalyst Paper Corporation. In late 2006, Third Avenue Management acquired approximately

38% of the Company's stock following the exit of Norske Skogindustrier ASA as a major shareholder. In April 2008, the Company through its wholly owned subsidiary, Catalyst Paper (Snowflake) Inc. purchased the production facility and assets, including the shares of a railway company, The Apache Railway Company, from Abitibi Consolidated Sales Inc.

9. The Debtors' business is comprised of three business segments: specialty printing papers, newsprint, and pulp. Specialty printing papers include coated mechanical, uncoated mechanical, and directory paper. The Debtors are the only producer of coated mechanical paper and soft calendar ("SC") paper in western North America.

(i) Specialty Printing Papers. The Debtors' largest business segment is specialty printing papers, which generated 57% of 2010 consolidated sales revenue; our papers are sold to a diversified customer base consisting of retailers, magazine and catalogue publishers, commercial printers, and telephone directory publishers. In 2010, 89% of specialty printing papers sales volume was sold to customers in North America.

(ii) Newsprint. Newsprint sales generated 25% of 2010 consolidated sales revenue. The newsprint customer base consists primarily of newspaper publishers located in western and central North America, Asia, and Latin America. In 2010, 72% of newsprint sales volume was sold to customers in North America.

(iii) Pulp. Pulp sales generated 18% of 2010 consolidated sales revenue. The pulp customer base is located primarily in Asia and includes producers of tissue, magazine papers, wood-free printing and writing papers, and certain specialty printing paper products. In 2010, 99% of pulp sales volume was sold to customers in Asia. The Crofton pulp mill is located on tidewater and has a deep-sea vessel loading facility, which enables direct-from-mill shipments to international buyers.

10. The Debtors' products are sold by their sales and marketing personnel in North America and through distributors and agents in other geographic markets. These products are shipped by a combination of rail, truck, and barge for customers located in North America and by break-bulk and deep-sea container vessels for customers located overseas.

11. The Company's active business operations comprise three pulp and paper mills and a distribution center in British Columbia, and one paper mill and a railroad in Arizona. These operations are summarized as follows:

(i) Crofton Division. An integrated pulp and paper manufacturing division located near Duncan on southern Vancouver Island. Crofton has two pulp machines with a capacity of 310,000 tons of Northern beaches softwood kraft ("NBSK") pulp (the paper industry's benchmark grade of pulp) per year and 3 paper machines with an annual capacity of 291,000 tons of newsprint and 145,000 tons of directory paper.

(ii) Port Alberni Division. A directory and lightweight coated paper manufacturing operation on Vancouver Island with 2 paper machines and an annual capacity of 338,000 tons.

(iii) Powell River Division. A newsprint and uncoated mechanical specialty paper manufacturing operation on the mainland coast of B.C. This division has 3 paper machines and has the annual capacity of 30,000 tons of newsprint and 449,000 tons of specialty paper.

(iv) Surrey Distribution Center. The Company's central distribution center for finished goods located in Surrey, B.C.

(v) Snowflake Mill. A 100% recycled newsprint and specialty paper manufacturing operation located in northeastern Arizona. This mill has 2 paper machines with

an annual capacity of 289,000 tons of newsprint and 48,000 tons of specialty papers. The division has approximately 295 employees.

(vi) Apache Railroad. An Arizona shortline railroad of approximately 61 km (38 miles) in length that operates from a connection with the BNSF Railway at Holbrook, AZ to the Company's Snowflake mill.

12. The Company also has two other locations where operations have ceased but the Company retains an interest in property and assets located at each of the sites:

(i) Elk Falls Division. Previously a newsprint and uncoated specialty paper manufacturing operation located near Campbell River on Vancouver Island. Elk Falls had 2 paper machines with an annual capacity of 373,000 tons of newsprint and 153,000 tons of specialty papers. The machines have been mothballed and are in an inoperable state.

(ii) Paper Recycling Division ("PRD"). The Company previously operated a paper de-inking facility in Coquitlam, B.C. to produce recycled pulp for its other mills. The Company holds a long-term lease of the premises. The facility has been mothballed and is in an inoperable state.

13. Apache Railroad. An Arizona shortline railroad of approximately 38 miles in length that operates from a connection with the BNSF Railway at Holbrook.

C. The Company's Corporate and Capital Structure

14. The Company's corporate structure is set forth in Exhibit B, attached to the Declaration of Brian Baarda [Docket No. 9]. CPC is a corporation organized under the CBCA. It is the parent company of the enterprise and directly controls 100% of the common

equity of almost all of the Canadian Debtors,³ as well as Catalyst Paper Holdings Inc. (“CPHI”), a Delaware corporation, which directly or indirectly controls the U.S. Debtors. The Company had consolidated assets and liabilities, as of September 30, 2011, of approximately CAD\$1,450.2 million and CAD\$1,314.6 million, respectively. The principal debt obligations of the Company comprise public debt obligations and a credit facility.

15. 2014 Notes. The Company issued 7.375% senior unsecured notes with a face value of US\$250.0 million, due in March 2014 (the “2014 Notes”). Interest is paid semi-annually for a total interest cost of US\$18.4 million per annum.

16. 2016 Notes. The Company issued 11% senior secured notes with a face value of US\$280.4 million in March 2010, due December 2016 (the “2016 Class A Notes”). The Company issued a further series of 11% senior secured notes with a face value of US\$110.0 million in May 2010, due December 2016 (the “2016 Class B Notes” and, together with the 2016 Class A Notes, the “2016 Notes”). As of November 30, 2011, the total indebtedness under the 2016 Notes is approximately US\$390 million.

17. The 2016 Notes are secured by a first lien on substantially all of the assets of the Company, other than the ABL First Charge Collateral (as defined below) and certain excluded assets (the “2016 Notes First Charge Collateral”). The 2016 Notes are further secured by a second priority lien over the ABL First Charge Collateral (“2016 Notes Second Charge Collateral”). The Debtors are guarantors of the 2014 Notes and 2016 Notes.

18. ABL Facility. The Company has a revolving credit facility for up to CAD\$175 million (the “ABL Facility”). Availability under the ABL Facility is determined by a

³ Debtor Catalyst Paper General Partnership is a partnership which is controlled 71.3% by CPC and 28.47% by Debtor Catalyst Pulp Operations Limited.

borrowing base calculated primarily on eligible accounts receivable and eligible inventory less certain reserves. As of September 30, 2011, the availability under the ABL Facility was \$108.1 million, after deducting outstanding drawings and letters of credit. Interest on drawings on the ABL is the prime rate for CAD drawings and the US prime rate minus 0.25% for USD drawings. The fees for letters of credit issued under the ABL Facility are calculated at 2.5 %. Security for the ABL Facility consists of a first lien on the Debtors' current assets including accounts receivable, inventories, and cash (the "ABL First Charge Collateral"), and a second lien on those assets of the Debtors subject to the first charge of the 2016 Notes, as detailed above. Certain assets, such as certain contracts and equipment and financing leases, are excluded from the security pledge. Members of the ABL syndicate include, among others, CIBC Asset Based Lending Inc. and J.P. Morgan Securities LLC.

D. Events Leading Up to CBCA Filing

19. Since 2006, the Company's gross revenues and EBITDA have steadily decreased as a result of reduced global demand for paper products. While the Company has adjusted its fixed cost structure to react to the changing demand, there have been several other factors that have produced significant challenges to the business. These have included the following:

(i) The demand for paper and pulp products continues to decline with the increase in online (electronically delivered) media and advertising as well as the increase in environmental awareness and stewardship. Production curtailments and machine closures (such as the Company's Elk Falls Mill) have occurred in step with the reduced demand.

(ii) Prices for finished goods have been under pressure.

(iii) Raw material input prices have increased due to decreased supply, particularly in the area of old newsprint (ONP) where reduced usage and paper and increased demand from China have affected the market.

(iv) The appreciation of the Canadian dollar has negatively impacted revenues from export sales. The Company is highly susceptible to a high Canadian dollar with a negative impact on earnings of \$5 million of every one cent decrease in the US dollar relative to the Canadian dollar.

(v) Capital expenditures have been substantially reduced, exposing the Company to the potential for increased maintenance downtime periods.

20. Total liquidity of the Company (defined as the borrowing base less outstanding letters of credit plus cash on hand) dropped 61.5% from CAD\$327.2 million at March 31, 2007 to CAD\$125.9 million at September 30, 2011. The change is predominantly due to a decrease in the borrowing base as a result of the closure of the Elk Falls and PRD locations, as well as other changes in working capital. Cash resources have been further constrained in 2011 as a result of the payment of outstanding property taxes for a prior year of CAD\$4.1 million; a one-time pension contribution of US\$5.1 million to wind up a U.S. defined benefit pension plan; and a general increase in working capital requirements.

21. The Company maintains a number of registered and unregistered pension plans and post retirement benefit programs. In 2010, the Company made cash payments of approximately CAD\$35.7 million towards these plans, and in 2011, the Company projected to make payments of approximately CAD\$41.2 million, for both current and past service costs. As such, they represent a significant use of the Company's available funds. Further, the Company is

required to make additional contributions to the registered pension plans in order to address the solvency deficits in those plans.

22. The Company recorded an impairment charge of CAD\$151.0 million (US\$145.3 million) on certain assets of Snowflake in Q3 2011, reflecting an erosion in the economic value of the Snowflake mill to the Company's total operations pursuant to U.S. GAAP principles. Significant changes to the economic and market environment in which Snowflake mill operates have had an adverse effect on the mill's operating results. The profitability of the Snowflake mill's recycled newsprint operation has been, and will continue to be, negatively impacted by reduced North American demand for newsprint due to declining circulation, ongoing conservation and migration to electronic media. This reduction in demand has resulted in excess newsprint capacity and very competitive conditions in the marketplace that continue to limit the Company's ability to successfully implement price increases to reflect increases to the Company's cost structure.

23. On June 21, 2010, Kevin J. Clarke joined the Company as President and Chief Executive Officer. Under Mr. Clarke's management, the Company has taken a number of actions to address the aforementioned issues, including, but not limited to:

- (i) reducing fixed and operational costs across all mills;
- (ii) reducing corporate overhead and staff;
- (iii) improving product mix;
- (iv) selective investment in capital projects with short pay-backs;
- (v) closing the Elk Falls mill in July 2010 after curtailing its production as of February 2009;

(vi) closing the Recycling Facility in Coquitlam, B.C. in July 2010, which had been idled since February 2010;

(vii) 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;

(viii) formal and informal discussions with strategic investors over the reorganization of the Company's corporate and capital structure; and

(ix) made numerous attempts to renegotiate competitive collective agreements with the Canadian union as well as successfully concluded negotiations with the US unions.

24. None of the above restructuring or refinancing alternatives provided the Company with sufficient liquidity relief that it required to maintain its continued viability as a going concern business. Given the Company's liquidity constraints, in October 2011, it became apparent that the Company may breach certain covenants under the 2016 Notes and it would be necessary for the Company to restructure its debt obligations. As a result, the Company began negotiating with representatives of certain holders of the 2014 Notes (collectively, the "2014 Noteholders") and holders of the 2016 Notes (collectively, the "2016 Noteholders") who had entered into confidentiality agreements since the fall of 2011. The negotiations, which have taken place over the last two and one half months, have included the Company, certain of the 2014 Noteholders and certain of the 2016 Noteholders together with their respective legal and financial advisors. On December 15, 2011, the Company deferred an interest payment of US\$21 million on the 2016 Notes. The Company had until January 16, 2011 to pay this amount before triggering an event of default. An event of default would have allowed 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. Following the Company's decision to defer payment of interest on the 2016 Notes, the Company and certain holders of the 2016 Notes and 2014 Notes intensified negotiations regarding the recapitalization of the Company. Ultimately, the Company and its constituents were able to arrive at terms that satisfied the Company's goals of enhanced flexibility to respond to the downturn in the market for paper, newsprint and pulp, improved capital structure and reduced debt service burden. However, the resulting consensual arrangement (the "RSA") negotiated among the Company, certain holders of 2016 Notes and certain holders of 2014 Notes, was subject to termination in certain circumstances, including potential termination by Catalyst if by January 31, 2012 holders of at least 66 $\frac{2}{3}$ % of the outstanding principal amount of the 2016 Notes and the 2014 Notes had not signed the RSA or a joinder agreement thereto.

E. Events Leading Up to CCAA Filing

25. As discussed above, on January 17, 2012 the Debtors commenced a CBCA Proceeding in the Canadian Court, having reached a consensual arrangement with certain holders of 2016 Notes and certain holders of 2014 Notes, as reflected in the terms of the RSA. Among other things, the RSA provided that if the Debtors had not obtained the requisite levels of support from the 2016 Noteholders and the 2014 Noteholders by January 31, 2012, the RSA would be subject to termination. Furthermore, the Debtors had previously entered into a waiver agreement whereby the lenders under the ABL Facility agreed to waive and forbear with respect to any potential events of default in connection with the CBCA Proceeding until January 31, 2012. As of the date of filing the CCAA Proceeding, the Debtors had obtained 79.47% support from the 2016 Noteholders and 56.4% from the 2014 Noteholders.

26. Given these circumstances, the Debtors had little choice but to seek protection under the CCAA while the Debtors attempt to implement other restructuring alternatives.

AMENDED RECOGNITION MOTION

27. CPC has filed, concurrently herewith, the Amended Recognition Motion and a memorandum of law in support thereof, seeking provisional relief, final relief and final recognition of the CCAA Proceeding as a foreign proceeding.

A. Recognition of CCAA Proceeding

28. As set forth in the Amended Recognition Motion, this Court should recognize the CCAA Proceeding as a “foreign main proceeding,” as defined in section 1502(4) of the Bankruptcy Code. In the alternative, this Court should recognize the CCAA Proceeding as a “foreign main proceeding” with respect to the Canadian Debtors and a “foreign nonmain proceeding” with respect to the U.S. Debtors. The Bankruptcy Code provides that a foreign proceeding is a “foreign main proceeding” if it is pending in the country where the debtor has its “center of main interests,” and a foreign proceeding is a “foreign nonmain proceeding” if it is pending in the country where the debtor has an “establishment,” defined as a place of operations where the debtor “carries out a nontransitory economic activity.” See 11 U.S.C. §§ 1517(b)(1)-(b)(2), § 1502(2).

29. The Debtors’ “center of main interest” is clearly in Richmond, British Columbia, Canada. Richmond, B.C., part of the Greater Vancouver Regional District, is the location of the Debtors’ headquarters and is the nerve center of the Debtors’ management, business and operations. Three of the four mills operated by the Debtors are also located in the province of British Columbia. The Debtors and their non-debtor affiliates are operationally and

functionally integrated in many respects, organized under centralized senior management and are subject to combined cash management and accounting functions, all based in and overseen from Richmond. The following (non-exhaustive) critical functions are performed for the Debtors and their non-Debtor affiliates out of the Richmond office:

- (a) the operations of the Company are directed from the Company's head office in Richmond;
- (b) all of the Debtors report to CPC, which is headquartered at the Company's head office in Richmond;
- (c) corporate governance for the Company is directed from Canada;
- (d) the directors and officers of the United States Debtors perform their duties in Richmond⁴;
- (e) strategic and key operating decisions and key policy decisions for the Company are made by the Company's staff located in Richmond;
- (f) the Company's tax, treasury and cash management functions are managed from Richmond and local plant finance staff report to senior finance management in Richmond;
- (g) the Company's human resources functions are administered from Richmond and all local human resources staff report into Richmond;
- (h) the Company's information technology and systems are directed from Richmond;
- (i) management and senior staff of the Company regularly attend meetings in Richmond;
- (j) all public company reporting and investor relations are directed from Richmond;
- (k) Mr. Clarke, the Company's President and Chief Executive Officer, is based in Richmond and, in addition to the senior management referenced above, all sales, manufacturing, operations and legal staff report to Mr. Clarke; and

⁴ Only one member of the senior management team, the head of CPC's sales department, is stationed outside of Richmond in Seattle, Washington.

- (l) each of the Debtors has assets in Canada, and each of the U.S. Debtors owns and maintains a bank account at a Canadian chartered bank in Vancouver, British Columbia which maintains such funds on deposit.

30. As such, it is my belief that Canada is the Debtors' center of main interests, and, accordingly, the CCAA Proceeding should be recognized by the Court as a foreign main proceeding. However, even assuming that Canada is not the center of main interests of the U.S. Debtors, based on the above description, the U.S. Debtors clearly have an "establishment" in Canada within the meaning of section 1502(2) of the Bankruptcy Code.

B. Post-petition Financing

31. The Debtors' gross revenues and EBITDA have steadily decreased since 2006 as a result of reduced global demand for paper products. In order to restructure the Debtors' outstanding debt obligations and return the Debtors to a profitable capital structure, the Debtors commenced the CBCA Proceeding, followed by the CCAA Proceeding, and CPC commenced the Chapter 15 Cases. Further, in order to properly fund the costs of the CCAA Proceeding and the Chapter 15 Cases, as well as the Debtors' continued operational expenses during the pendency of such proceedings, the Debtors and their advisors have engaged in multi-party negotiations with significant parties in interest and have made a good-faith business decision to enter into a commitment letter (the "DIP Commitment Letter") from J.P. Morgan Chase Bank, N.A., Toronto Branch ("JPMorgan Chase" or the "DIP Agent")⁵, as administrative agent, J.P. Morgan Securities Inc. as sole lead arranger and bookrunner, and certain other lenders (collectively, the "DIP Lenders") and a term sheet (the "DIP Term Sheet" and, together with the DIP Commitment Letter, the DIP Term Sheet or any related documents required to be delivered by or in connection with the DIP Facility, the "DIP Loan Documents"). A copy of the DIP Term

⁵ The DIP Agent also served as the administrative agent under the ABL Facility.

Sheet and the DIP Commitment Letter will be attached to the forthcoming *Motion for Provisional Relief In Connection With Debtor-In-Possession Financing Pursuant to 11 U.S.C. §§ 105(a), 1519, and 1521*. Under the DIP Term Sheet, the DIP Lender will provide the Debtors with access to an 18-month postpetition revolving credit facility (the “DIP Facility”) in the amount of \$175 million.

32. The DIP Facility will be secured by (i) a fully perfected first-ranking court-ordered charge except with respect to the 2016 Notes First Charge Collateral and (ii) a fully perfected second-ranking court ordered charge with respect to the 2016 Notes First Charge Collateral (collectively, the “DIP Lender’s Charge”) capped at \$175 million, under the CCAA and recognition thereof under Chapter 15 on all of the existing and after acquired real and personal, tangible and intangible, assets of the Debtors (the “DIP Collateral”)⁶, excluding the equity interests in Powell River Energy Inc. and Powell River Energy Limited Partnership and other equity interests in joint ventures with non-Loan Parties (collectively, together with Powell River Energy Inc. and Powell River Energy Limited Partnership, the “JVs”), and assets of any such JVs (or any interest therein) held by a loan party as nominee for any such JV or any party thereto or as tenant in common with any non-loan party, to the extent consent of arms’ length third parties is required to grant a lien in such JV assets but is not obtained, pursuant to orders of the Canadian Court and this Court in form and substance satisfactory to the DIP Agent and pursuant to the definitive DIP Loan Documents. The DIP Facility will be available in Canadian dollars or U.S. dollars to the Canadian Borrowers. Not more than \$20 million of the DIP

⁶ The “DIP Lenders’ First Lien Collateral” will consist of the DIP Collateral over which the DIP Lender is granted a fully perfected first-ranking court ordered charge or lien.

Facility at any one time outstanding shall be available to the U.S. Borrowers denominated in U.S. Dollars only.

33. In connection with seeking approval of the DIP Facility in the CCAA Proceeding, the Debtors will seek approval of certain liens or charges in addition to the DIP Lender's Charge. Specifically, the Debtors will seek to grant the directors and officers of the Debtors the benefit of a lien or charge (the "D&O Charge") on the DIP Collateral, which charge shall not exceed an aggregate amount of \$31,000,000, as security for Debtors' obligations to indemnify their directors and offices against any obligations to make payments in favor of the Crown in right of Canada or of any Province thereof or any other taxation authority as further discussed in the Initial CCAA Order. Further, the Debtors will seek to grant a lien or charge to the Monitor and Debtors' Canadian and U.S. counsel as security for unpaid fees and expenses (the "Administration Charge"), which shall not exceed the aggregate amount of \$1,500,000. Finally, the Debtors will seek to grant certain critical vendors a lien a charge on the DIP Collateral, in a capped amount, as security for any amounts owed by the Debtors for the supply of goods or services after entry of the Initial CCAA Order (the "Suppliers Charge" and together with the DIP Lenders' Charge, the Administration Charge and the D&O Charge, collectively, the "Charges").

34. With respect to the Debtors property which constitutes the DIP Lenders' First Lien Collateral, the priorities of the Charges, the liens securing the obligations in connection with ABL Facility ("ABL Facility Security") and the liens securing the obligations in connection with the 2016 Notes (the "2016 Notes Security"), as among themselves, the Debtors will seek approval of the following priority scheme: (1) the Administration Charge; (2) the DIP

Lender's Charge; (3) the ABL Facility Security; (4) the Suppliers Charge; (5) the D&O Charge and (6) the 2016 Notes Security.

35. With respect to the Debtors' property which constitutes 2016 Notes First Lien Collateral, the priority of the Charges, the 2016 Notes Security, the ABL Facility Security, as among themselves, the Debtors will seek approval of the following priority scheme: (1) the Administration Charge; (2) the Suppliers Charge; (3) the D&O Charge; (4) the 2016 Notes Security; (5) the DIP Lender's Charge and (6) the ABL Facility Security.

C. Other Relief Requested

36. By the Amended Recognition Motion, CPC also requests the application of section 362 of the Bankruptcy Code on an interim basis until the hearing on recognition takes place. As explained more fully in the Amended Recognition Motion, absent such preliminary relief pending the Court's determinations with respect to recognition of the CCAA Proceeding as a "foreign main proceeding," certain U.S. creditors may seek a tactical advantage through unilateral action, including acceleration or efforts to commence litigation, attachment or other legal process in whatever U.S. jurisdiction a creditor may chose. As the success of the CCAA Proceeding depends on the Debtors' ability to adopt a unified plan of arrangement covering the claims of all creditors, the threat of disruption of the reorganization process as well as the legal cost of defending such actions may have a severe and adverse impact on any chance of a successful reorganization in the CCAA Proceeding, causing irreparable harm to the Debtors and other interested parties.

37. In addition, certain contracts with U.S. creditors include provisions for automatic termination which may be triggered by either the filing of the CCAA Proceeding or these Chapter 15 Cases. Termination of these contracts would have similar detrimental effects

on the Debtors' reorganization efforts and therefore must be prevented by application of section 365(e) of the Bankruptcy Code. Accordingly, I believe that granting the provisional relief requested in the Amended Recognition Motion is necessary for the successful reorganization of the Debtors, and clearly in the Debtors' and their creditors' best interests.

38. Furthermore, the Debtors are requesting application of sections 362(e) and 365 of the Bankruptcy Code in order to prevent the Debtors from suffering irreparable harm due to the disruption in business operations and interference with reorganization efforts that would result from the exercise of remedies by vendors under various contracts. Every day of delay in the application of the important provisional relief may cause the Debtors to suffer additional lost value. In order to preserve the Debtors' value to the maximum extent possible, the Debtors seek to obtain provisional relief as soon as possible.

39. The Debtors seek to give full force and effect in the United States to any and all orders that have been or will be made or entered in the CCAA Proceeding, including without limitation, the Initial CCAA Order and any forthcoming final order approving the restructuring transaction to be effected through the CCAA Proceeding (collectively, the "Canadian Orders"), including any extensions or amendments in the United States and to obtain recognition of the CCAA's stay of proceedings to protect their United States assets and operations. The Debtors require immediate protection in the United States through entry of the Provisional Relief Order, consistent with the relief provided for in the Canadian Orders, to prevent creditors and other stakeholders from taking steps to disrupt the Debtors' operations, potentially deplete their estates to the detriment of all stakeholders, and irreparably jeopardize the Debtors' ongoing efforts to restructure.

40. In short, the failure to protect the Debtors' U.S. assets will irreparably harm the Debtors and deplete their resources, thereby limiting the Debtors' ability to maximize the assets available, on an equitable basis, for all creditors of the Debtors. The proposed relief will ease these concerns and allow for the orderly administration of the Debtors' affairs and equitable resolution of the Debtors' liabilities with supervision by the Canadian Court. A stay of all actions and remedies that could be exercised against the Debtors and protection against automatic termination of contracts will not only preserve the Debtors' assets for the benefit of their creditors, but also allow the Company to devote its full attention to effectively and efficiently administering the CCAA Proceeding.

41. Accordingly, based on the foregoing, I urge the Court to grant the relief requested in the Amended Recognition Motion, as I believe such relief to be vital to a successful restructuring of the Debtors, and in the best interests of the Debtors and their creditors generally.

Based on the foregoing, I believe that the relief requested in the Debtors' Chapter 15 Cases is well-justified, necessary to a successful reorganization of the Debtors, and in the best interests of the Debtors and their creditors and should be granted in full.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge, information and belief.

Dated: Richmond, British Columbia, Canada
January 31, 2012



Brian Baarda

Miscellaneous:12-10221-PJW Catalyst Paper Corporation

Type: bk

Chapter: 15 v

Office: 1 (Delaware)

Assets: y

Judge: PJW

Case Flag: MEGA, LEAD

U.S. Bankruptcy Court**District of Delaware**

Notice of Electronic Filing

The following transaction was received from Van C. Durrer entered on 1/31/2012 at 4:32 PM EST and filed on 1/31/2012

Case Name: Catalyst Paper Corporation**Case Number:** 12-10221-PJW**Document Number:** 39**Docket Text:**

Second Declaration of *Brian Baarda* (related document(s)[38]) Filed by Catalyst Paper Corporation. (Durrer, Van)

The following document(s) are associated with this transaction:

Document description:Main Document**Original filename:**H:\temp\convert\Baarda - Executed.pdf**Electronic document Stamp:**

[STAMP bkecfStamp_ID=983460418 [Date=1/31/2012] [FileNumber=10487105-0]
] [91d1f5d0fff9e0c8998c07ce79d442432cfa2fc31ac2c37964a5885d675b04eb2b8
a55d7264cb07703a9a9cb4f5b3f2bf5fe714322b9cd280f2de1eec0a7ae4d]]

12-10221-PJW Notice will be electronically mailed to:

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Michael Schein on behalf of Creditor CIT Group/Equipment Financing, Inc.