

No. S120712
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

AMENDED AND RESTATED INITIAL ORDER

BEFORE THE HONOURABLE)
MR. JUSTICE SEWELL) 3/February/2012
)

THE APPLICATION of the Petitioners coming on for hearing at Vancouver, British Columbia, on the 3rd day of February, 2012 (the "**Order Date**"); AND ON HEARING, Bill Kaplan, Q.C., and Peter Rubin, counsel for the Petitioners, Peter Reardon and Wael Rostom (by telephone), counsel for JPMorgan Chase Bank, N.A. ("**JPMorgan**") in its capacity as administrative agent under the DIP Credit Agreement (in such capacity, the "**DIP Agent**"), John Grieve and Kibben Jackson, counsel for the Monitor PricewaterhouseCoopers Inc. ("**PwC**"), and those other counsel listed in **Schedule "B"** hereto; AND UPON READING the material filed, including the First

Affidavit of Brian Baarda affirmed January 31, 2012 (the “**Baarda Affidavit**”), the Third Affidavit of Brian Baarda affirmed January 31, 2012, the First Affidavit of Jyotika Reddy affirmed January 31, 2012, the First Affidavit of Robert Lindstrom affirmed February 1, 2012 and the consent of PwC to act as Monitor; AND UPON BEING ADVISED that the secured creditors and others who are likely to be affected by the charges created herein were given notice; AND pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985 c. C-36 as amended (the “**CCAA**”), the British Columbia Supreme Court Civil Rules and the inherent jurisdiction of this Honourable Court;

THIS COURT ORDERS AND DECLARES THAT:

1. This Amended and Restated Initial Order amends and restates the Initial Order of the Court dated January 31, 2012.

JURISDICTION

2. The Petitioners are companies to which the CCAA applies. Catalyst Paper General Partnership, a general partnership (the “**Partnership**”) and its Property (defined below) shall enjoy the benefits of the protections provided to the Petitioners, and shall be subject to the same restrictions as the Petitioners, under this Order (the Petitioners, together with the Partnership, collectively, the “**Petitioner Parties**”).

SUBSEQUENT HEARING DATE

3. The hearing of the Petitioner Parties’ application for an extension of the Stay Period (as defined in paragraph 20 of this Order) and for any ancillary relief shall be held at the Courthouse at 800 Smithe Street, Vancouver, British Columbia at 9:45a.m. on Tuesday, the 14th day of February, 2012 or such other date as this Court may order (the “**Comeback Hearing**”).

PLAN OF ARRANGEMENT

4. The Petitioner Parties shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (the “**Plan**”).

POSSESSION OF PROPERTY AND OPERATIONS

5. Subject to this Order and any further Order of this Court, the Petitioner Parties shall remain in possession and control of their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof and for greater certainty, the property of the Partnership (collectively, the “**Property**”), and continue to carry on their business (the “**Business**”) in the ordinary course and in a manner consistent with the preservation of the Business and the Property. The Petitioner Parties shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively, “**Assistants**” which definition for the purposes herein and as referred to in subparagraph 8(c) shall include Akin Gump Strauss Hauer & Feld LLP, Fraser Milner Casgrain LLP, Goodmans LLP, Farris, Vaughan, Wills & Murphy LLP, Kramer Levin, Moelis & Company LLC and Houlihan Lokey Capital, Inc.) currently retained or employed by them, with liberty to retain such further Assistants as they deem reasonably necessary or desirable in the ordinary course of business or for carrying out the terms of this Order.

6. The Petitioner Parties shall be entitled to continue to utilize the central cash management system currently in place as described in part in the Baarda Affidavit or, with the consent of the DIP Lenders (defined below), replace it with another substantially similar central cash management system including any modifications required in connection with the DIP Facility (defined below) (the “**Cash Management System**”) and any present or future bank providing the Cash Management System: (i) shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the Petitioner Parties of funds transferred, paid, collected or otherwise dealt with in the Cash Management System; (ii) notwithstanding paragraph 26 of this Order, shall be entitled to provide the Cash Management

System and exercise its permitted discretion to adjust such services pursuant to the terms of the documentation applicable to the Cash Management System without any liability to any Person (defined below) other than the Petitioner Parties arising from the making of this Order or the insolvency of the Petitioner Parties; and (iii) shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims that may arise or expenses it may suffer or incur in connection with the provision of the Cash Management System.

7. Immediately upon the Petitioner Parties' receipt thereof or otherwise in accordance with the Petitioner Parties' current practices, the Petitioner Parties are authorized and directed to remit to the DIP Agent all cash, monies and collection of accounts receivable and other book debts in their possession or control (collectively, "**Cash Receipts**") and all Cash Receipts so remitted shall be applied in accordance with the DIP Documents (defined below). The DIP Agent is hereby authorized to (i) on the date hereof and from time to time in accordance with the DIP Credit Agreement (defined below) send a notice to each bank and deposit-taking institution that is a party to a Blocked Account Agreement (as defined in the DIP Credit Agreement), as such agreements may be amended from time to time (each a "**Receivable Account Bank**") to commence a period during which the applicable Receivable Account Bank shall cease complying with any instructions originated by any applicable Petitioner Parties and shall comply with instructions originated by the DIP Agent as to dispositions of funds, without further consent of the applicable Petitioner Parties and until further notice from the DIP Agent, and (ii) apply (and allocate) the funds in each Blocked Account (as defined in the DIP Credit Agreement) pursuant to the DIP Credit Agreement and paragraphs 10, 11(d) and 11(e) of this Order without further order or approval of this Court. Each Receivable Account Bank is hereby authorized and directed to comply with any instructions originated by the DIP Agent on or after the Order Date directing disposition of funds, without further consent of the applicable Petitioner Parties or further order or approval of this Court. As of the Closing Date under the DIP Credit Agreement, each Blocked Account Agreement (defined in the ABL Facility, as defined below) will continue and remain in full force and effect, in each case substituting the DIP Agent for the Pre-Petition Agent under the ABL Facility (defined below) as the secured party thereunder. Notwithstanding any provision of this Order, pending the closing date of the DIP Credit Agreement, the Pre-

Petition Agent shall be entitled to send notices to the following Receivables Account Banks in connection with specified accounts as agreed with the Petitioner Parties.

8. Subject to the terms, conditions and availability under the DIP Facility, the Petitioner Parties shall be entitled, but not required, to pay the following expenses which may have been incurred prior to the Order Date:

- (a) all outstanding wages, salaries, employee and pension benefits (including long and short term disability payments), vacation pay and expenses (but excluding severance, termination pay and, subject to further Order of this Court, any payments pursuant to the retention program for senior executives) payable before or after the Order Date, in each case incurred in the ordinary course of business and consistent with the relevant compensation policies and arrangements existing at the time incurred (collectively “Wages”);
- (b) all amounts owing to or in respect of individuals working as independent contractors in connection with the Petitioner Parties’ Business;
- (c) the fees and disbursements of any Assistants (which term for the purposes herein shall be as defined in paragraph 5) retained or employed by the Petitioner Parties, including counsel for Wilmington Trust FSB in their capacity as Trustee under the Indentures dated as of March 10, 2010 and May 19, 2010, which are related to the Petitioner Parties’ restructuring, at their standard rates and charges (and, for certainty, shall exclude any success or transaction fee), including payment of the fees and disbursements of legal counsel retained by the Petitioner Parties and the Directors, whenever and wherever incurred, in respect of:
 - (i) these proceedings or any other similar proceedings in other jurisdictions in which the Petitioner Parties or any subsidiaries or affiliated companies of the Petitioner Parties are domiciled;

- (ii) any litigation in which the Petitioners are named as a party or are otherwise involved, whether commenced before or after the Order Date; and
 - (iii) any related corporate matters;
- (d) all amounts owing for goods and services actually supplied to the Petitioner Parties:
- (i) by chemical suppliers, fibre suppliers, utility and fuel suppliers, old newspaper suppliers and other related products, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties and the Monitor, the supplier is crucial to the business and ongoing operations of any of the Petitioner Parties;
 - (ii) by freight and logistics suppliers, third party customs brokers, agents, freight carriers, freight forwarders, warehousemen, and shippers, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties and the Monitor, the party providing the good or service is crucial to the business and ongoing operations of any of the Petitioner Parties; and
 - (iii) by other parties providing goods or services, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties and the Monitor, the supplier is crucial to the business and ongoing operations of any of the Petitioner Parties;
- (e) with the prior consent of the Monitor and the DIP Agent, all amounts owing to creditors who, prior to the date of this Order, lawfully retained Property or exercised possessory liens against Property;

- (f) all amounts in respect of customer programs including, *inter alia*, rebates, adjustments, performance and volume discounts; and
- (g) any amounts payable in respect of customs and duties.

9. The Petitioner Parties shall be subrogated to the rights of any creditor receiving a payment pursuant to paragraph 8(d), 8(e), 8(f) and 8(g) of this Order in the amount of the payment(s) (the total amount paid to each such party constituting a "**Key Supplier Claim**"). Each such Key Supplier Claim shall be deemed to be assigned to the Petitioner Parties for all purposes and the Petitioner Parties shall be entitled to vote the Key Supplier Claims in any Plan.

10. The Petitioner Parties, the Pre-Petition Agent (as defined below) and the DIP Agent are authorized and directed to first apply all pre-filing and post-filing accounts receivable proceeds and account receivable collections in permanent repayment of the Secured Obligations (as defined in the asset based loan facility amended and restated May 31, 2011 between the Petitioner Parties and JPMorgan, as agent for the lenders thereunder (the "**Pre-Petition Agent**") and the various lenders signatory thereto as further amended, modified or supplemented from time to time (the "**ABL Facility**")), and to cash collateralize all contingent obligations forming part of the Secured Obligations as required pursuant to the DIP Documents (defined below) and this Order, including any indemnification or payment obligations owing by the Petitioner Parties in connection with any Existing LCs (defined below) and any Existing Derivatives Transactions (defined below).

11. Subject to the terms and conditions of and availability under the DIP Facility (defined below) and except as otherwise provided herein, the Petitioner Parties shall be entitled but not required to pay all expenses reasonably incurred by the Petitioner Parties in carrying on the Business in the ordinary course following the Order Date, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably incurred and which are necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors' and officers' insurance),

maintenance and security services, provided that any capital expenditure exceeding \$1,000,000 shall be approved by the Monitor;

- (b) all obligations incurred by the Petitioner Parties after the Order Date, including without limitation, with respect to goods and services actually supplied to the Petitioner Parties following the Order Date (including those under purchase orders outstanding at the Order Date but excluding any interest on the Petitioner Parties' obligations incurred prior to the Order Date);
- (c) fees and disbursements of the kind referred to in paragraph 8(c) which may be incurred after the Order Date;
- (d) the posting of additional cash collateral (the "**LC Cash Collateral**") into a LC Collateral Account (defined in the ABL Facility) established with the Pre-Petition Agent as required by Section 2.06(j) of the ABL Facility as additional and continuing security for the indemnification obligations owing by the Petitioner Parties in connection with existing letters of credit, letters of guarantee, surety bonds, and similar instruments comprising the LC Exposure (as defined in the ABL Facility) under the ABL Facility (collectively, "**Existing LCs**") that are not cancelled and replaced by a new letter of credit or other such instrument under the DIP Facility and for any foreign exchange losses incurred by any issuer of one or more of the Existing LCs and its correspondent banks, if any, under Existing LCs issued in currencies other than Canadian dollars or U.S. dollars;
- (e) the posting of additional cash collateral (the "**Derivatives Cash Collateral**") into a cash collateral account established with the Pre-Petition Agent, in the name of the Pre-Petition Agent and for the benefit of the Derivatives Lenders (as defined in the ABL Facility) in an amount of the aggregate mark-to-market positions associated with all outstanding Derivatives Transactions (as defined in the ABL Facility), determined on a netted basis for each Derivatives Lender, as additional and continuing security for the Derivatives Secured Obligations (as defined under the ABL Facility) owing by the Petitioner Parties in connection with existing Derivatives Transactions not terminated on the Order Date (collectively,

“Existing Derivatives Transactions”). The Pre-Petition Agent shall hold the Derivatives Cash Collateral as collateral for the payment and performance of the Derivatives Secured Obligations (as defined in the ABL Facility), and shall have exclusive dominion and control, including the exclusive right of withdrawal, over the Derivatives Collateral Account (as defined in the ABL Facility) and, subject to the terms of this Order, the remaining provisions of Section 2.06(j) of the ABL Facility shall apply to the Derivatives Collateral Account, mutatis mutandis, as if the references therein to “LC Collateral Account” were references to the “Derivatives Collateral Account”, references to “LC Exposure” were references to “Derivatives Secured Obligations”, and references therein to “Issuing Bank” and “Revolving Lenders” were references to the “Derivatives Lenders”;

- (f) payment of any indebtedness of the Petitioner Parties to the Issuing Bank (as defined in the ABL Facility) and the Lenders (as defined in the ABL Facility) when due in connection with LC Exposure under the ABL Facility by way of set-off and transfer of LC Cash Collateral posted as at the Order Date or posted thereafter as permitted under subparagraph (d) above; and
- (g) payment of any indebtedness of the Petitioner Parties to the Derivatives Lenders (as defined in the ABL Facility) when due in connection with Derivatives Secured Obligations under the ABL Facility by way of set-off and transfer of Derivatives Cash Collateral posted as at the Order Date or posted thereafter as permitted under subparagraph (e) above.

12. Subject to further Order of the Court, the Petitioner Parties:

- (a) are authorized and directed to remit, in accordance with legal requirements, or pay any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from Wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes or any such claims which are to be paid pursuant to Section 6(3) of the CCAA;

- (b) are authorized to remit, in accordance with legal requirements, or pay all goods and services or other applicable sales taxes (collectively, “**Sales Taxes**”) required to be remitted by the Petitioner Parties in connection with the sale of goods and services by the Petitioner Parties, but only where such Sales Taxes accrue or are collected after the Order Date, or where such Sales Taxes accrued or were collected prior to the Order Date but not required to be remitted until on or after the Order Date;
- (c) are authorized and directed to remit, in accordance with legal requirements, or pay all employer normal cost contributions to defined benefit and defined contribution registered pension plan provisions which, for greater certainty, excludes special payments (the “**Normal Cost Contributions**”) as required by the most recently filed actuarial valuations in respect of any pension plans registered under the *Pensions Benefits Standards Act* (British Columbia) (the “**PBSA**”) and maintained by the Petitioner Parties (collectively, the “**Pension Plans**”), whether such Normal Cost Contributions are in respect of periods prior to, on or after the date of this Order and such payments shall be made within four (4) business days of each payroll date with notice of such payments provided to the B.C. Superintendent of Pensions;
- (d) are authorized to remit or pay the special payments referenced in the letter dated December 14, 2011 from the Superintendent of Pensions attached as Exhibit “E” to the Baarda Affidavit in respect of any pension plans registered under the PBSA and maintained by the Petitioner Parties, but in no event shall the Petitioner make any special or catch up payments on an accelerated basis without further Order of this Court on not less than 15 days notice to the DIP Agent and Fraser Milner Casgrain LLP as Canadian counsel to the 2016 Steering Group (as defined below) and Goodmans LLP, as Canadian counsel to the Ad Hoc Noteholders (as defined below); and
- (e) are authorized to remit, in accordance with legal requirements, or pay any amount payable to the Crown in right of Canada or of any Province thereof or any

political subdivision thereof or any other taxation authority in respect of municipal property taxes, municipal business taxes or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors.

13. Until such time as a real property lease is disclaimed in accordance with the CCAA, the Petitioner Parties shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable as rent to the landlord under the lease) based on the terms of existing lease arrangements or as otherwise may be negotiated between the Petitioner Parties and the landlord from time to time (“**Rent**”), for the period commencing from and including the Order Date, twice-monthly in equal payments on the first and fifteenth day of the month in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including Order Date shall also be paid.

14. Except as specifically permitted both by the Order and the DIP Documents (defined below), the Petitioner Parties are hereby directed, until further Order of this Court:

- (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Petitioner Parties to any of their creditors as of the Order Date;
- (b) to make no payments in respect of any financing leases which create security interests;
- (c) to grant no security interests, trusts, mortgages, liens, charges or encumbrances upon or in respect of any of its Property, nor borrow under or increase the principal amount secured by any existing security interests, trusts, mortgages, liens, charges or encumbrances upon or in respect of any of its Property nor become a guarantor or surety, nor otherwise become liable in any manner with respect to any other person or entity;

- (d) to not grant credit except in the ordinary course of the Business only to its customers for goods and services actually supplied to those customers, provided such customers agree that there is no right of set-off in respect of amounts owing for such goods and services against any debt owing by the Petitioner Parties to such customers as of the Order Date; and
- (e) to not incur liabilities except in the ordinary course of Business.

15. Notwithstanding any other provision in this Order, (a) no Issuing Bank shall be required to renew an Existing LC or issue any new letter of credit under the ABL Facility to the Petitioner Parties at the request or for the account of any of them and are hereby authorized to issue any required notices of non-renewal and (b) no DIP Lender shall be required to enter into a hedging agreement or any other eligible financial contract or provide any new banking or cash management services with any of the Petitioner Parties.

RESTRUCTURING

16. Subject to such requirements as are imposed by the CCAA and such covenants as may be contained in the DIP Documents (defined below), the Petitioner Parties shall have the right to:

- (a) temporarily cease or, with the consent of the Monitor, permanently downsize or shut down all or any part of its Business or operations and commence marketing efforts in respect of any of its redundant or non-material assets and to dispose of redundant or non-material assets not exceeding \$500,000 in any one transaction or \$2,000,000 in the aggregate;
- (b) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate; and
- (c) pursue all avenues of refinancing for its Business or Property, in whole or part;

all of the foregoing to permit the Petitioner Parties to proceed with an orderly restructuring of the Business (the "**Restructuring**").

17. The Petitioner Parties shall provide each of the relevant landlords with notice of the Petitioner Parties' intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Petitioner Parties' entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors who claim a security interest in the fixtures, such landlord and the Petitioner Parties, or by further Order of this Court upon application by the Petitioner Parties, the landlord or the applicable secured creditors on at least two (2) clear days' notice to the other parties. If the Petitioner Parties disclaim the lease governing such leased premises in accordance with Section 32 of the CCAA, they shall not be required to pay Rent under such lease pending resolution of any dispute concerning such fixtures (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer of the lease shall be without prejudice to the Petitioner Parties' claim to the fixtures in dispute.

18. If a notice of disclaimer is delivered pursuant to Section 32 of the CCAA, then: (a) during the period prior to the effective time of the disclaimer, the landlord may show the affected leased premises to prospective tenants during normal business hours on giving the Petitioner Parties and the Monitor 24 hours' prior written notice; and (b) at the effective time of the disclaimer, the landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims the landlord may have against any Petitioner Party, or any other rights the landlord might have, in respect of such lease or leased premises and the landlord shall be entitled to notify the Petitioner Parties of the basis on which it is taking possession and gain possession of and re-lease such leased premises to any third party or parties on such terms as the landlord considers advisable, provided that nothing herein shall relieve the landlord of its obligation to mitigate any damages claimed in connection therewith.

19. Pursuant to Section 7(3)(c) of the *Personal Information Protection and Electronics Documents Act*, S.C. 2000, c. 5 and Section 18(1)(o) of the *Personal Information Protection Act*, S.B.C. 2003, c. 63, and any regulations promulgated under authority of either Act, as applicable (the "**Relevant Enactment**"), the Petitioner Parties, in the course of these proceedings, are

permitted to, and hereby shall, disclose personal information of identifiable individuals in its possession or control to stakeholders, its advisors, prospective investors, financiers, buyers or strategic partners (collectively, "**Third Parties**"), but only to the extent desirable or required to negotiate and complete the Restructuring or to prepare and implement the Plan or transactions for that purpose; provided that the Third Parties to whom such personal information is disclosed enter into confidentiality agreements with the Petitioner Parties binding them in the same manner and to the same extent with respect to the collection, use and disclosure of that information as if they were an organization as defined under the Relevant Enactment, and limiting the use of such information to the extent desirable or required to negotiate or complete the Restructuring or to prepare and implement the Plan or transactions for that purpose, and attorning to the jurisdiction of this Court for the purposes of that agreement. Upon the completion of the use of personal information for the limited purposes set out herein, the Third Parties shall return the personal information to the Petitioner Parties or destroy it. If the Third Parties acquire personal information as part of the Restructuring or the preparation and implementation of the Plan or transactions in furtherance thereof, such Third Parties may, subject to this paragraph and any Relevant Enactment, continue to use the personal information in a manner which is in all respects identical to the prior use thereof by the Petitioner Parties.

STAY OF PROCEEDINGS, RIGHTS AND REMEDIES

20. Until and including February 14, 2012, or such later date as this Court may order (the "**Stay Period**"), no action, suit or proceeding in any court or tribunal (each, a "**Proceeding**") against or in respect of the Petitioner Parties or the Monitor, or affecting the Business or the Property, shall be commenced or continued except with the written consent of the Petitioner Parties and the Monitor or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Petitioner Parties or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

21. During the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "**Persons**" and each being a "**Person**") against or in respect of the Petitioner Parties or the

Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Petitioner Parties and the Monitor or leave of this Court.

22. Nothing in this Order, including paragraphs 20 and 21, shall: (i) empower any one of the Petitioner Parties to carry on any business which that Petitioner Party is not lawfully entitled to carry on; (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA; (iii) prevent the filing of any registration to preserve or perfect a mortgage, charge or security interest (subject to the provisions of Section 39 of the CCAA relating to the priority of statutory Crown securities); or (iv) prevent the registration or filing of a lien or claim for lien or the commencement of a Proceeding to protect lien or other rights that might otherwise be barred or extinguished by the effluxion of time, provided that no further step shall be taken in respect of such lien, claim for lien or Proceeding except for service of the initiating documentation on the Petitioner Parties.

NO INTERFERENCE WITH RIGHTS

23. During the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Petitioner Parties, except with the written consent of the Petitioner Parties and the Monitor or leave of this Court. Nothing in this Order shall stay or prohibit a DIP Lender that has entered into a hedging agreement or other eligible financial contract, whether before, on or after the date of this Order, with any of the Petitioner Parties from terminating such agreement or contract in accordance with its terms.

CONTINUATION OF SERVICES

24. During the Stay Period, all Persons having oral or written agreements with the Petitioner Parties or mandates under a statutory or regulatory enactment for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation, services, utility or other services to the Business or the Petitioner Parties are hereby restrained until further Order of this Court from discontinuing, altering, interfering with, or terminating the supply of such

goods or services as may be required by the Petitioner Parties, and that the Petitioner Parties shall be entitled to the continued use of its current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the Order Date are paid by the Petitioner Parties in accordance with normal payment practices of the Petitioner Parties or such other practices as may be agreed upon by the supplier or service provider and the Petitioner Parties and the Monitor, or as may be ordered by this Court. For greater certainty, no Receivable Account Bank may terminate its service management with any Petitioner Party or terminate a Blocked Account Agreement, without further Order of the Court.

CRITICAL SUPPLIER ORDER AND CHARGE

25. Those suppliers listed in **Schedule "C"** hereto are hereby deemed critical suppliers (the "**Critical Suppliers**") in accordance with section 11.4 of the CCAA. Any Critical Suppliers' Charge ordered by the Court (the "**Critical Suppliers' Charge**") shall have the priority set out in paragraphs 51 and 52 herein. Notwithstanding any other provision of this Order, no Critical Supplier shall be prohibited from requiring immediate payment for goods, services, use of leased or licensed property or other valuable consideration provided on or after the Order Date, nor shall any Critical Supplier be under any obligation to advance or re-advance any monies or otherwise extend any credit to the Petitioner Parties on or after the Order Date.

NON-DEROGATION OF RIGHTS

26. Subject to paragraph 25, notwithstanding any provision of this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of leased or licensed property or other valuable consideration provided on or after the Order Date, nor shall any Person be under any obligation to advance or re-advance any monies or otherwise extend any credit to the Petitioner Parties on or after the Order Date. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

27. During the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against the directors or officers of the Petitioner Parties with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Petitioner Parties whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the Petitioner Parties, if one is filed, is sanctioned by this Court or is refused by the creditors of the Petitioner Parties or this Court. Nothing in this Order, including in this paragraph, shall prevent the commencement of a Proceeding to preserve any claim against a director or officer of the Petitioner Parties that might otherwise be barred or extinguished by the effluxion of time, provided that no further step shall be taken in respect of such Proceeding except for service of the initiating documentation on the applicable director or officer.

DIRECTORS AND OFFICERS INDEMNIFICATION AND CHARGE

28. The Petitioner Parties shall indemnify their directors and officers against obligations and liabilities that they may incur as directors or officers of the Petitioner Parties after the commencement of the within proceedings, except to the extent that, with respect to any director or officer, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

29. The directors and officers of the Petitioners shall be entitled to the benefit of and are hereby granted a charge (the "**D&O Charge**") on the Charged Property (defined below), which charge shall not exceed the aggregate amount of \$31,000,000, as security for the indemnity provided in paragraph 28 of this Order. The D&O Charge shall have the priority set out in paragraphs 51, 52, 54 and 55 herein. Subject to further Order of the Court, the relief granted in this paragraph shall extend to and include the date of the Comeback Hearing at which time the relief sought shall be considered on a *de novo* basis.

30. Notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the D&O Charge, and (b) the Petitioners' directors and officers shall only be entitled to the benefit of the D&O Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 28 of this Order.

APPOINTMENT OF MONITOR

31. PwC is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Petitioner Parties with the powers and obligations set out in the CCAA or set forth herein, and that the Petitioner Parties and their shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Petitioner Parties pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

32. The Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the Petitioner Parties' receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;
- (c) assist the Petitioner Parties, to the extent required by the Petitioner Parties, in their dissemination to the DIP Lenders, counsel to the DIP Lenders, Fraser Milner Casgrain LLP as Canadian counsel to the representative group of the holders of the 2016 Notes (the "**2016 Steering Group**"), and Goodmans LLP (in their capacity as counsel to certain holders of 2014 Notes and certain holders of 2016 Notes (the "**Ad Hoc Noteholders**")), financial and other information as agreed to

between the Petitioner Parties and the DIP Lenders, the 2016 Steering Group, and the Ad Hoc Noteholders, acting reasonably, which may be used in these proceedings including reporting on a basis to be agreed on with the DIP Lenders;

- (d) advise the Petitioner Parties in their preparation of the Petitioner Parties' cash flow statements and reporting required by the DIP Lenders and as may be required by the 2016 Steering Group and the Ad Hoc Noteholders, acting reasonably, which information shall be reviewed with the Monitor and delivered to the DIP Lenders, counsel to the DIP Lenders, Fraser Milner Casgrain LLP as Canadian counsel to the 2016 Steering Group, and Goodmans LLP, in their capacity as counsel to the Ad Hoc Noteholders, as the case may be, on a periodic basis as agreed to by the DIP Lenders;
- (e) advise the Petitioner Parties in their development of the Plan and any amendments to the Plan;
- (f) assist the Petitioner Parties, to the extent required by the Petitioner Parties, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;
- (g) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Petitioner Parties, to the extent that is necessary to adequately assess the Petitioner Parties' business and financial affairs or to perform their duties arising under this Order;
- (h) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;
- (i) hold funds in trust or in escrow, to the extent required, to facilitate settlements or other transactions between the Petitioner Parties and any other Person; and

- (j) perform such other duties as are required by this Order or by this Court from time to time.

33. The Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, or by inadvertence in relation to the due exercise of powers or performance of duties under this Order, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof, and nothing in this Order shall be construed as resulting in the Monitor being an employer or a successor employer, within the meaning of any statute, regulation or rule of law or equity, for any purpose whatsoever.

34. Nothing herein contained shall require or allow the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Fisheries Act*, the *British Columbia Environmental Management Act*, the *British Columbia Fish Protection Act* and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. For greater certainty, the Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

35. The Monitor shall provide any creditor of the Petitioner Parties and the DIP Lenders with information provided by the Petitioner Parties in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Petitioner Parties

is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Petitioner Parties may agree.

36. In addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the rights and protections afforded the Monitor by the CCAA or any applicable legislation.

ADMINISTRATION CHARGE

37. The Monitor, Canadian and U.S. counsel to the Monitor, and Canadian and U.S. counsel to the Petitioner Parties and the Directors, including the separate counsel acting for the Petitioner Parties in connection with the DIP Credit Facility and the DIP Credit Agreement, shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Petitioner Parties as part of the cost of these proceedings. The Petitioner Parties are hereby authorized and directed to pay the accounts of the Monitor, counsel to the Monitor and such Canadian and U.S. counsel to the Petitioner Parties on a periodic basis and, in addition, the Petitioner Parties are hereby authorized to pay to the Monitor, counsel to the Monitor, and such counsel to the Petitioner Parties, retainers in the aggregate amount of \$350,000 to be held by them as security for payment of their respective fees and disbursements outstanding from time to time.

38. The Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the British Columbia Supreme Court and may be heard on a summary basis.

39. The Monitor, counsel to the Monitor, and counsel to the Petitioner Parties and the Directors shall be entitled to the benefit of and are hereby granted a charge (the “**Administration Charge**”) on the Property other than Excluded JV Interests (as defined below) (collectively, the “**Charged Property**”), which charge shall not exceed an aggregate amount of \$1,500,000, as security for their respective fees and disbursements incurred at the standard rates and charges of

the Monitor and such counsel, both before and after the making of this Order which are related to the Petitioner Parties' restructuring. The Monitor, counsel to the Monitor and counsel to the Petitioner Parties shall be required to provide the Monitor with bi-weekly updates regarding the unpaid amounts owing to them which are secured by the Administration Charge. The Administration Charge shall have the priority set out in paragraphs 51, 52, 54 and 55 herein. "**Excluded JV Interests**" means: (a) the Petitioner Parties' 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 (b) 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, except to the extent the property described in (b) above may become charged pursuant to the terms of the DIP Credit Agreement.

SALE OF NOTES FIRST LIEN COLLATERAL

40. Notwithstanding any other provision of this Order, if any of the Notes First Lien Collateral (as defined in **Schedule "D"** hereto) is sold, leased or otherwise disposed of, the proceeds of any such Notes First Lien Collateral will be deposited into one or more deposit accounts or securities accounts established by and under the sole dominion and control of Computershare Trust Company of Canada, in its capacity as collateral trustee for itself and the holders of the 2016 Notes (in such capacity, the "**Collateral Trustee**") (each such account, a "**Noteholder Proceeds Collateral Account**") whereupon, and subject to the provisions of this Order and the Charges (as defined below) and subject to the consent of the Monitor, such proceeds shall be used, applied and otherwise dealt with by the Collateral Trustee, Catalyst Paper Corporation or other applicable Petitioner Party, as applicable, to the extent permitted by the terms of each of the Indentures dated as of March 19, 2010 and May 19, 2010 as among Catalyst Paper Corporation, Wilmington Trust FSB and Computershare Trust Corporation of Canada (collectively, "**2016 Note Indenture**") under which certain notes (collectively, "**2016 Notes**") are issued. Each such Noteholder Proceeds Collateral Account shall constitute Notes First Lien Collateral.

DIP FINANCING

41. The Petitioner Parties are hereby authorized and empowered to obtain and borrow and reborrow (and obtain the issuance of letters of credit and other financial accommodations) under a credit facility (the “**DIP Facility**”) to be made available by the DIP Agent as DIP Agent and as lender and LC Issuer and the other lenders from time to time party to the DIP Credit Agreement (together the “**DIP Lenders**”) in order to finance the Petitioner Parties’ working capital requirements, continuation of the Business, preservation of the Property, and other general corporate purposes provided that the aggregate principal amount outstanding (plus the face amount of any letters of credit issued under the DIP Facility) shall not exceed the lesser of \$175,000,000 and the aggregate maximum amount permitted pursuant to the terms of the DIP Credit Agreement (as defined below) (“**Final Availability**”).

42. The DIP Facility shall be available substantially on the terms and subject to the conditions set forth in the Commitment Letter attached as Exhibit “J” to the Baarda Affidavit (the “**DIP Commitment Letter**”). The Petitioner Parties may enter into a credit agreement (the “**DIP Credit Agreement**”) on terms and conditions contemplated by and substantially consistent with the DIP Commitment Letter. After the date hereof, the Petitioner Parties and DIP Agent may amend the DIP Credit Agreement with the consent of the Monitor and, if material, on not less than two (2) business days’ prior written notice to Fraser Milner Casgrain LLP as Canadian counsel of record for the 2016 Steering Group and Goodmans LLP, in their capacity as counsel to the Ad Hoc Noteholders. Until February 14, 2012, the aggregate principal amount outstanding under the DIP Facility (excluding the face amount of any letters of credit issued under the DIP Facility) shall not exceed \$40,000,000. The aggregate principal amount outstanding (including the face amount of any letters of credit issued under the DIP Facility) shall not exceed \$119,800,000 (“**Initial Availability**”) until the conditions to Final Availability pursuant to the DIP Commitment Letter or any DIP Credit Agreement have been either satisfied or waived by the DIP Agent.

43. The DIP Facility and the DIP Credit Agreement be and are hereby approved.

44. All of the Petitioner Parties' obligations, liabilities and indemnities agreed to in their banking services and cash management agreements with any DIP Lender and any hedging agreements with any DIP Lender, or any of their affiliates, shall be secured by the DIP Lenders' Charge (defined below); provided that all such banking services obligations and hedging exposure secured by the DIP Lenders' Charge shall be subordinate to the repayment of all of the other Secured Obligations (defined in the DIP Credit Agreement). The Petitioner Parties are hereby authorized and empowered to execute and deliver such credit agreements (including the DIP Credit Agreement), mortgages, charges, hypothecs and security documents, blocked account agreements, guarantees and other definitive documents, as are contemplated by the DIP Credit Agreement or as may be reasonably required by the DIP Lenders pursuant to the terms thereof or to evidence or implement the DIP Lenders' Charge, including all banking and cash management services agreements and all hedging agreements with one or more DIP Lenders or their affiliates (collectively, the "**DIP Documents**"), and the Petitioner Parties are hereby authorized and directed to pay all of their indebtedness, interest, fees, and liabilities and perform their obligations to the DIP Lenders under and pursuant to the DIP Commitment Letter, fee letter and the DIP Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order. For greater certainty, the Petitioner Parties are hereby authorized and directed to pay the fees of the DIP Agent and the DIP Lenders in connection with the DIP Facility and to pay the accounts of Canadian and US counsel to the DIP Agent and the DIP Lenders and advisors to the DIP Agent and to DIP Lenders in accordance with the DIP Commitment Letter and fee letter.

45. The DIP Lenders shall be entitled to the benefit of and are hereby granted a charge (the "**DIP Lenders' Court Charge**") on the Charged Property. The DIP Lenders' Court Charge shall not secure an obligation that existed before this Order is made.

46. The DIP Lenders' Court Charge and any contractual security interests granted pursuant to the DIP Documents (collectively with the DIP Lenders' Court Charge, the "**DIP Lenders' Charge**") shall attach to the Charged Property and shall secure all obligations under the DIP Documents and all obligations owed to any DIP Lender (or its affiliates) for banking and cash management services and hedging obligations under transactions entered on or after the Order

Date, provided to any Petitioner Party by that DIP Lender (or its affiliates). The DIP Lenders' Charge shall, subject to the terms and conditions of the DIP Credit Agreement concerning Permitted Priority Claims, have the priority set out in paragraphs 51, 52, 53, 55 and 56 hereof.

47. The Petitioner Parties are hereby authorized and directed to pay all funds received after the date of this Order, which are derived from accounts receivable to reduce the Revolving Exposure (as defined in the ABL Facility) or fund the cash collateral accounts contemplated in paragraph 11(d) and 11(e) of this Order, as applicable, all in the order of application contemplated in section 2.18(b) of the ABL Facility until all Revolving Exposure thereunder has been either indefeasibly paid in full in cash or fully cash collateralized as required under paragraphs 11(d) and 11(e) of this Order.

48. For the period from January 31, 2012 through February 6, 2012 (inclusive) only and notwithstanding paragraphs 7, 10, 11 and 47 hereof and the terms of the Blocked Account Agreements between the Receivable Account Banks and the Pre-Petition Agent:

- (a) the Petitioner Parties shall pay to the Pre-Petition Agent (i) on February 1, 2012, the amount, if any, by which the aggregate amount of all cash on hand at the close of business on the January 31, 2012 (the "**Cash on Hand**") exceeds the amount of \$40,000,000 (such amount being referred to herein as the "**Permitted Cash Amount**"); and (ii) on each other business day, all cash receipts collected by the Company on account of accounts receivable or other proceeds of ABL First Lien Collateral (the "**Post Filing Collections**") on the previous Business Day; provided that until February 3, 2012 in the event that the actual amount of the Cash on Hand is less than the Permitted Cash Amount, the Petitioner Parties shall not be obligated to make any payments pursuant to this paragraph 48(a) unless and until the total amount of the Cash on Hand on January 31, 2012 plus the aggregate amount of the Post-Filing Collections is equal to the Permitted Cash Amount;
- (b) effective on February 3, 2012, the Petitioner Parties shall pay to the Pre-Petition Agent an amount of not less than \$11,200,000 from cash on hand;

- (c) effective on February 8, 2012 and upon funding under the DIP Credit Facility becoming available in accordance with its terms, the Petitioner Parties shall pay to the Pre-Petition Agent any and all remaining Cash on Hand and thereafter this paragraph 48 shall no longer apply to qualify or restrict in any way the application of paragraphs 7, 10, 11 and 47 of this Order;
- (d) the payments made by the Petitioner Parties to the Pre-Petition Agent pursuant to paragraph 48(a), or any other provision of this Order, may, in the discretion of the Pre-Petition Agent, be applied to the ABL Facility as permanent repayments thereof and/or held by the Pre-Petition Agent as cash collateral as security for the payment and performance of all contingent obligations forming part of the Secured Obligations, including any indemnification or payment obligations owing in connection with any Letters of Credit or any Derivatives Transactions; and
- (e) subject to the obligations of the Company to make payments to the Pre-Petition Agent as provided in paragraph 48(a) above, the Company shall be entitled to make payments out of the Cash on Hand and Post-Filing Collections to the extent of the Permitted Cash Amount substantially in accordance with the Revised Cash Flow Forecast (as defined in the DIP Commitment Letter).

49. Notwithstanding any other provision of this Order:

- (a) the DIP Lenders may take such steps from time to time as they may deem necessary or appropriate to file, register, record or perfect the DIP Lenders' Charge or any of the DIP Documents;
- (b) upon the occurrence of an event of default under any of the DIP Documents or the DIP Lenders' Charge, the DIP Lenders, (i) shall be entitled to immediately cease making any further advances or issue any additional financial accommodations to the Petitioner Parties, and (ii) upon two (2) business days notice (and subject to the requirements of the DIP Credit Agreement in the case of an Event of Default under Article VII, clause (t) thereof) to the Petitioner Parties, the Monitor, Fraser

Milner Casgrain LLP as Canadian counsel to the 2016 Steering Group and Goodmans LLP, in their capacity as counsel to the Ad Hoc Noteholders, may exercise any and all of its rights and remedies against the Petitioner Parties or the Charged Property under or pursuant to the DIP Documents and the DIP Lenders' Charge, including without limitation, their right to set off and/or consolidate any amounts owing by the DIP Lenders to the Petitioner Parties against the obligations of the Petitioner Parties to the DIP Lenders under the DIP Documents or the DIP Lenders' Charge, to make demand, accelerate payment and give other notices, or to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Petitioner Parties and for the appointment of a trustee in bankruptcy of the Petitioner Parties; and

- (c) the foregoing rights and remedies of the DIP Lenders shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Petitioner Parties or the Property.

50. The DIP Lenders, in such capacity, shall be treated as unaffected in any plan of arrangement or compromise filed by the Petitioner Parties under the CCAA, or any proposal filed by the Petitioner Parties under the *Bankruptcy and Insolvency Act* of Canada (the "BIA"), with respect to any advances made under the DIP Documents or the DIP Lenders' Charge.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

- 51. (a) In respect of the Charged Property of the Petitioner Parties which constitutes DIP Lenders' First Lien Collateral (as defined in Schedule "D" hereto) other than Excluded Assets (as defined in the ABL Facility), the priorities of the Charges (as defined below), the Encumbrances (as defined below) securing the obligations in connection with ABL Facility ("**ABL Facility Security**") and the Encumbrances securing the obligations in connection with the Noteholder Secured Obligations (as defined in the DIP Credit Agreement) (the "**2016 Notes Security**"), as among themselves, shall be as follows:

- First - the Administration Charge
- Second - the DIP Lenders' Charge
- Third - the ABL Facility Security
- Fourth - any Critical Suppliers' Charge, if ordered by the Court
- Fifth - the D&O Charge
- Sixth - the 2016 Notes Security

(b) In respect of the Charged Property of the Petitioner Parties which consists of "Excluded Assets" (as defined in the Intercreditor Agreement attached as Exhibit "D" to the Baarda Affidavit", the relevant portion of which is set forth in Schedule "D" hereto) which, for greater certainty, does not include the Excluded JV Interests, the priorities of the Charges shall be as follows:

- First - the Administration Charge
- Second - the DIP Lenders' Charge
- Third - any Critical Suppliers' Charge, if ordered by the Court
- Fourth - the D&O Charge

52. In respect of the Charged Property which constitutes Notes First Lien Collateral, the priority of the Charges, the 2016 Notes Security, the ABL Facility Security, as among themselves, shall be as follows:

- First - the Administration Charge
- Second - any Critical Suppliers' Charge, if ordered by the Court

- Third - the D&O Charge
- Fourth - the 2016 Notes Security
- Fifth - the DIP Lenders' Charge
- Sixth - the ABL Facility Security

53. Notwithstanding paragraphs 51 and 52, the DIP Lenders' Charge shall be subordinate to the following claims and Encumbrances against the Charged Property described below (but only to the extent, in each case, that such Encumbrances are not subordinate to claims over which the DIP Lenders' Charge has priority):

- (a) validly perfected purchase money security interests to the extent of the principal obligations outstanding as of the date hereof and otherwise permitted in accordance with the DIP Credit Agreement, but in each case, only in respect of the specific purchased or leased Charged Property under the arrangements giving rise to the purchase money security interests; and
- (b) deemed trusts under subsections 227(4) or (4.1) of the *Income Tax Act* (Canada), subsections 23(3) or (4) of the *Canada Pension Plan*, subsection 86(2) of the *Employment Insurance Act* (Canada)

(the "**Permitted Priority Claims**").

54. Notwithstanding paragraph 55 of this Order, subject to further order of the Court, the Administration Charge, the D&O Charge and any Critical Suppliers' Charge, if ordered by the Court, shall be subordinate to the Permitted Priority Claims (but only to the extent, in each case, that those Permitted Priority Claims are not subordinate to claims over which the DIP Lenders' Charge has priority).

55. The Charges shall constitute a mortgage, security interest, assignment by way of security and charge on the Charged Property and, save and except that the DIP Lenders' Charge shall be subordinate to the 2016 Notes Security in respect of the Notes First Lien Collateral, all of the Charges are paramount to and shall rank in priority to all other security interests, trusts, liens, mortgages, charges and encumbrances and claims of secured creditors, statutory or otherwise, whether existing as of the date hereof or arising in the future, including any and all deemed trusts (provincial or otherwise), including under the PBSA, all claims in respect of breach of fiduciary duties and any future charges which may arise under Sections 81.3, 81.4, 81.5 and 81.6 of the BIA (collectively, "**Encumbrances**"), in favour of any Person.

56. Notwithstanding any other provision of this Order or other fact, and except for the Administration Charge and the Permitted Priority Claims, the DIP Lenders' Charge against the DIP Lenders' First Lien Collateral shall be senior in priority over all other claims, Charges or Encumbrances including, without limitation, the 2016 Notes Security.

57. Any security documentation evidencing, or the filing, registration or perfection of, the Administration Charge, the DIP Lenders' Charge, any Critical Suppliers' Charge, if ordered by the Court, and the D&O Charge (collectively, the "**Charges**") shall not be required, and the Charges shall be effective as against the Charged Property and shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected, notwithstanding any failure to file, register or perfect any such Charges. The Charges shall attach to all Charged Property including equipment, inventory, lease, license, occupation permit, or other contractual right notwithstanding any requirement for the consent of any lessor, licensor, or other party to or finance of any such Charged Property, or any other person, and notwithstanding the provisions of any applicable instrument or agreement to the contrary, the failure to obtain such consent shall not constitute a breach of or default under any such license, right of occupation, permit, statute, contractual or other agreement comprising or relating to such Charged Property.

58. Subject to further order of the Court, the Charges as they relate to the Petitioner Parties' interest in real property, shall be subordinate to the interest of such secured creditors with lawful Encumbrances registered against such real property who rank in priority behind the 2016 Notes

Security, on such real property (such that they are not affected by the Charges, pending further order of the Court elevating the priority of the Charges as against the real property interests of the Petitioner Parties granted by such further Order of the Court); provided that in no event shall the DIP Lenders' Charge be elevated to be in priority to the 2016 Notes Security as against such real property interests.

59. For greater certainty, the Charges and all such other Encumbrances as may attach to the LC Cash Collateral and the Derivatives Cash Collateral, including by operation of law or otherwise, (a) shall rank junior in priority to the ABL Facility Security and the DIP Charge in respect of LC Cash Collateral and the Derivatives Cash Collateral and (b) shall attach to the LC Cash Collateral and Derivatives Cash Collateral only to the extent of the rights of the Petitioner Parties to the return of any LC Cash Collateral and Derivatives Cash Collateral from the Pre-Petition Agent and DIP Agent following (i) the payment and satisfaction of (x) all LC Exposure and all Derivatives Secured Obligations and thereafter, (y) all other Secured Obligations (as defined in the ABL Facility) and all other Secured Obligations (as defined in the DIP Facility) and (ii) the exercise by the Pre-Petition Agent and the DIP Agent of any rights in respect of the LC Cash Collateral and the Derivatives Cash Collateral pursuant to Section 21 of the CCAA, notwithstanding anything to the contrary contained herein.

60. Except as otherwise expressly provided herein, or as may be approved by this Court, the Petitioner Parties shall not grant or suffer to exist any Encumbrances over any Property that rank in priority to, or *pari passu* with the Charges or the ABL Facility Security in the LC Cash Collateral and the Derivatives Cash Collateral, unless the Petitioner Parties obtain the prior written consent of the Monitor, the DIP Agent, the DIP Lenders and the beneficiaries of the Administration Charge, the D&O Charge, and the Issuing Bank and the Pre-Petition Agent.

61. The Administration Charge, any Critical Suppliers' Charge, if ordered by the Court, the D&O Charge, the DIP Credit Agreement, the DIP Documents, the DIP Lenders' Charge, and the ABL Facility Security in respect of the LC Cash Collateral and the Derivatives Cash Collateral shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges and the ABL Facility Security in respect of the LC Cash Collateral and the Derivatives Cash Collateral (collectively, the "**Chargees**") shall not otherwise

be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, mortgage, security agreement, debenture, sublease, offer to lease or other agreement (collectively, an “**Agreement**”) which binds the Petitioner Parties; and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Charges nor the LC Cash Collateral nor the Derivatives Cash Collateral nor the execution, delivery, perfection, registration or performance of the DIP Documents shall create or be deemed to constitute a breach by the Petitioner Parties of any Agreement to which they are a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Petitioner Parties entering into the DIP Documents, the creation of the Charges or the LC Cash Collateral or the Derivatives Cash Collateral, or the execution, delivery or performance of the DIP Documents; and
- (c) the payments made by the Petitioner Parties pursuant to this Order, the DIP Documents, or the ABL Facility, and the granting of the Charges and the LC Cash Collateral and the Derivatives Cash Collateral, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

62. Any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Petitioner Parties’ interest in such real property leases.

63. In the event of any inconsistency between the terms and conditions of the DIP Documents and of this Order, the provisions of this Order shall control and govern.

SERVICE AND NOTICE

64. The Monitor shall (i) without delay, publish in The National Post and the Vancouver Sun a notice containing the information prescribed under the CCAA, (ii) within five days after January 31, 2012, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against the Petitioner Parties of more than \$5,000, and (C) prepare a list showing the names and addresses of those creditors (excluding employees) and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder.

65. The Petitioner Parties and the Monitor are at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to the Petitioner Parties' creditors or other interested parties at their respective addresses as last shown on the records of the Petitioner Parties and that any such service or notice by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

66. Notwithstanding paragraph 65, the Petitioner Parties and the Monitor shall be permitted to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, to any pension parties who may take the position they are likely to be affected including on any employee, former employee, and any spouse or designated beneficiary of an employee or former employee, who is entitled to a benefit under the Salaried Plan (as defined in the Petition) or Plan A (as defined in the Petition) administered by the Petitioner Parties, by way of: (1) notice to Mr. Bill Sharkey, on behalf of the Catalyst TimberWest Retired Salaried Employees Association; (2) notice to the Catalyst Pension Administration Committee; (3) notice to the Financial Institutions Commission of B.C.; (4) notice to CIBC Mellon Trust in its capacity as the trustee for beneficiaries under Plan A who reside outside British Columbia, or by locating the address of those particular beneficiaries and delivering the materials directly, and (5) solely for the purpose of service of this Order for the Comeback Hearing, publication of a notice by the

Monitor, substantially in the form attached as **Schedule "E"**, in the following newspapers: the Vancouver Sun, Victoria Times Colonist, and The National Post.

67. The Petitioner Parties shall be entitled to effect service of the Baarda Affidavit, the Third Affidavit of Brian Baarda affirmed January 31, 2012, and the First Affidavit of Jyotika Reddy affirmed January 30, 2012 (the "**Supporting Affidavits**") by effecting service of the Supporting Affidavits without the exhibits attached thereto. The Monitor shall post the Supporting Affidavits with the attached exhibits on the Monitor's Website at: www.pwc.com/car-catalystpaper.

68. Any Person that wishes to be served with any application and other materials in these proceedings must deliver to the Monitor by way of ordinary mail, courier, personal delivery or electronic transmission a request to be added to a service list (the "**Service List**") to be maintained by the Monitor. The Monitor shall post and maintain an up to date form of the Service List on its website at: www.pwc.com/car-catalystpaper.

69. Any party to these proceedings may serve any court materials in these proceedings by emailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, and the Monitor shall post a copy of all prescribed materials on its website at: www.pwc.com/car-catalystpaper.

70. Notwithstanding paragraphs 68 and 69 of this Order, service of the Petition, the Notice of Hearing of Petition, the Supporting Affidavits, this Order and any other pleadings in this proceeding (collectively, the "**Materials**"), shall be made on the federal and British Columbia Crowns in accordance with the *Crown Liability and Proceedings Act*, R.S.C. 1985, c. C-50, and regulations thereto, in respect of the federal Crown, and the *Crown Proceeding Act*, R.S.B.C. 1996, c. 89, in respect of the British Columbia Crown.

71. If service is required pursuant to the *Constitutional Question Act*, R.S.B.C 1996, c 68, for any application in this proceeding, service shall be effected pursuant to that Act if service is effected five (5) calendar days before any such application.

GENERAL

72. The Petitioner Parties or the Monitor may from time to time apply to this Court for advice and directions in the discharge of their powers and duties hereunder.

73. Nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Petitioner Parties, the Business or the Property.

74. THIS COURT REQUESTS the aid and recognition of other Canadian and foreign Courts, tribunal, regulatory or administrative bodies, including any Court or administrative tribunal of any Federal or State Court or administrative body in the United States of America, (including, without limitation, the United States Bankruptcy Court), to act in aid of and to be complementary to this Court in carrying out the terms of this Order where required. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to (i) make such orders and to provide such assistance to the Petitioner Parties and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, (ii) grant representative status to any of the Petitioners, and to CPC on behalf of any or all of the Petitioner Parties, in any foreign proceeding, and (iii) assist the Petitioner Parties, CPC, the Monitor and the respective agents of each of the foregoing in carrying out the terms of this Order.

75. Each of the Petitioners respectively and on its own behalf, and CPC on behalf of any or all of the Petitioner Parties, is hereby authorized and empowered, but not required, to (i) apply to any court, tribunal, regulatory, administrative, or other body, wherever located, for the recognition of this Order and/or for assistance in carrying out the terms of this Order, including, without limitation, to apply to the United States Bankruptcy Court for or otherwise pursue relief under chapter 15 of the *United States Bankruptcy Code*, 11 U.S.C. §§ 101-1330, as amended ("**Chapter 15 Relief**"), and (ii) act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized and/or aided in a jurisdiction outside Canada, including, without limitation, acting as a foreign representative of the Petitioner Parties in connection with any Chapter 15 Relief.

76. For the purposes of any applications authorized by paragraph 74, the centre of main interest of the Petitioner Parties is located in British Columbia, Canada.

77. The Petitioner Parties may (subject to the provisions of the CCAA and the BIA) at any time file a voluntary assignment in bankruptcy or a proposal pursuant to the commercial reorganization provisions of the BIA if and when the Petitioner Parties determine that such a filing is appropriate.

78. The Petitioner Parties and the DIP Agent are hereby at liberty to apply for such further interim or interlocutory relief as it deems advisable within the time limited for Persons to file and serve Responses to the Petition.

79. Leave is hereby granted to hear any application in these proceedings on two (2) clear days' notice after delivery to all parties on the Service List of such Notice of Application and all affidavits in support, subject to the Court in its discretion further abridging or extending the time for service.

80. Any interested party (including the Petitioner Parties and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to all parties on the Service List and to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

81. This Order is subject to provisional execution and that if any of the provisions of this Order in connection with the ABL Facility, ABL Facility Security, DIP Facility or DIP Lenders' Charge shall subsequently be stayed, modified, varied, amended, reversed or vacated in whole or in part (collectively a "**Variation**") whether by subsequent order of this Court or on or pending an appeal from this Order, such Variation shall not in any way impair, limit or lessen the protections, rights or remedies of the Pre-petition Agent, the DIP Agent and DIP Lenders, whether under this Order (as made prior to the Variation) or under any of the documentation delivered pursuant hereto, with respect to any receipts applied or used to reduce the obligations outstanding under the ABL Facility or DIP Facility, cash collateralize any obligations under

either facility or advances made under the DIP Facility, prior to the Pre-petition Agent and the DIP Agent being given notice of the Variation.

82. Endorsement of this Order by counsel appearing on this application is hereby dispensed with.

83. This Order and all of its provisions are effective as of 12:01 a.m. local Vancouver time on the Order Date.

THE FOLLOWING PARTIES APPROVE THE FORM OF THIS ORDER AND CONSENT TO EACH OF THE ORDERS, IF ANY, THAT ARE INDICATED ABOVE AS BEING BY CONSENT:

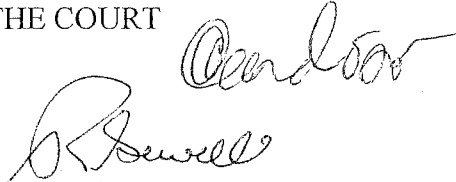


Signature of

Party Lawyer for the Petitioner Parties

Bill Kaplan, Q.C./Peter Rubin

BY THE COURT



REGISTRAR

Schedule "A"

LIST OF ADDITIONAL PETITIONERS

Catalyst Pulp Operations Limited

Catalyst Pulp Sales Inc.

Pacifica Poplars Ltd.

Catalyst Pulp and Paper Sales Inc.

Elk Falls Pulp and Paper Limited

Catalyst Paper Energy Holdings Inc.

0606890 B.C. Ltd.

Catalyst Paper Recycling Inc.

Catalyst Paper (Snowflake) Inc.

Catalyst Paper Holdings Inc.

Pacifica Papers U.S. Inc.

Pacifica Poplars Inc.

Pacifica Papers Sales Inc.

Catalyst Paper (USA) Inc.

The Apache Railway Company

Schedule "B"

Name of Counsel	Party
Kendall Andersen	Tolko Industries Ltd.
Randy Kaardal Brent Johnston	Catalyst TimberWest Retired Salaried Employees Association
John Sandrelli Shayne Kukulowicz Ryan Jacobs	A Representative Group of 2016 Noteholders
David Gruber Robert Chadwick Melaney Wagner	Certain holders of 2014 Notes and certain holders of 2016 Notes
Mary Buttery	Powell River Energy Inc. TimberWestForest Corp. Quadrant Investments Ltd.
Jane Milton, Q.C.	International Forest Products Limited Western Forest Products Inc. Seaspan Marine Corporation
Benjamin La Borie	Wilmington Trust FSB
W. Gary Wharton	Arrow Transportation
Heather Ferris	Board of Directors of Catalyst Paper Corporation
Don Bobert	CEP Locals – 1, 76 (Powell River), 592, 686 (Port Alberni), 1132 (Crofton), 630, 1123 (Campbell River)
Sebastien Anderson Stefanie Quelch	United Steelworkers International, Local 2688
Sandra Wilkinson	B.C. Superintendent of Pensions
Scott Sweatman Colin Galinski	Catalyst Paper Corporation Pension Administration Committee
Jonathan McLean Elizabeth Pillon (by telephone)	Canexus Chemicals Canada LP Casco, Inc.
Jodie Gauthier	PPWC Local 2 (Crofton)
David McKinnon	Ad hoc group of Noteholders

Schedule "C"

CANEXUS CHEMICALS CANADA LP
CHEMTRADE WEST LIMITED
ERCO WORLDWIDE
ROHM AND HAAS CANADA LP
INTERNATIONAL FOREST PRODUCTS
TIMBERWEST FOREST COMPANY
TOLKO INDUSTRIES LTD
WESTERN FOREST PRODUCTS INC
C N FREIGHT
COASTAL PACIFIC EXPRESS INC
SEASPAN MARINE CORPORATION
BNSF RAILWAY COMPANY
EVONIK DEGUSSA
SEARLES VALLEY MINERALS
SWIFT TRANSPORTATION
CASCO, INC.

Schedule "D"

"DIP Lenders' First Lien Collateral" means, in respect of any of the Petitioner Parties, the following assets and property of such Petitioner Party, now owned or hereafter acquired:

- (a) all inventory, including goods held for sale, lease or resale, goods furnished or to be furnished to third parties under contracts of lease, consignment or service, goods which are raw materials or work in process, supplies and goods used in or procured for packing and materials used or consumed in the business of such Petitioner Party;
- (b) all accounts due or accruing and all related agreements, books, accounts, invoices, letters, documents and papers recording, evidencing or relating to them;
- (c) (i) all monies and claims for monies now or hereafter due and payable in connection with any or all of the property described in (a) and (b) of this definition, (ii) all present and future acquired deposit accounts and other accounts of such Petitioner Party (other than any Noteholder Proceeds Collateral Account and any proceeds of Notes First Lien Collateral on deposit therein), (iii) all cash, cash equivalents and other monies of such Petitioner Party (other than any Noteholder Proceeds Collateral Account and any proceeds of Notes First Lien Collateral on deposit therein), and (iv) all cash and non-cash proceeds of the foregoing;
- (d) the real property legally described as PID: 001-233-432, District Lot 109, Sayward District, Except Parcel A (DD 285472-1) And Those Parts in Plans 1373-R, 16956, 50636, VIP54479, VIP64521 and EPP 7297;
- (e) the real property located on Vancouver Island, British Columbia, and more particularly described as DIP Lenders' First Lien Collateral in the DIP Credit Agreement;
- (f) the real property located in Washington State and more particularly described as DIP Lenders' First Lien Collateral in the DIP Credit Agreement;
- (g) all leasehold interests in real property other than the Notes Leasehold Collateral;
- (h) at any date, all and any rights or interest of the Petitioner Parties under any agreement, contract, license, instrument, document or other general intangible, in each case other than a leasehold interest in real property and other than any Excluded JV Interests (any such agreement, contract, license, instrument, document or other general intangible referred to solely for purposes of this definition as an "**Interest**") to the extent that such Interest by its terms, or any requirement of law, prohibits, or requires any consent (which has not been obtained) or establishes any other condition for or would terminate or be violated because of, an assignment thereof or a grant of a security interest therein by the Petitioner Parties (unless such consent is obtained or condition is satisfied);

- (i) with respect to any Person, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, shares, partnership interests or any other participation, right or other interest in the nature of an equity interest in such Person owned by any of the Petitioner Parties (other than any Excluded JV Interests) including, without limitation, common stock and preferred stock of such Person, or any option, warrant or other security convertible into any of the foregoing (the “**Capital Stock**”) and other equity interests owned at any time by any of the Petitioner Parties in any corporation, partnership, joint venture, limited liability company, association or other business entity;
- (j) all real property interests that are not fee interests or Notes Leasehold Collateral;
- (k) any interest in real property acquired after May 31, 2011 if the net book value of such interest is less than \$250,000;
- (l) all records, documents, instruments, documents of title, investment property, financial assets, instruments, chattel paper, supporting obligations, commercial tort claims, letters of credit and letter of credit rights and other claims and causes of action, in each case, in connection with the foregoing;
- (m) all substitutions and replacements of and increases, additions and, where applicable, accessions to the property described in (a) through (l) inclusive of this definition; and
- (n) all proceeds in any form derived directly or indirectly from any dealing with all or any part of the property described in (a) through (m) inclusive of this definition, including the proceeds of such proceeds, but for greater certainty, excluding identifiable proceeds of Notes First Lien Collateral.

For greater, certainty, any of the items set forth in this definition that are or become branded or otherwise produced through the use of any intangibles or intellectual property shall constitute DIP Lenders’ First Lien Collateral;

“**Notes First Lien Collateral**” means the assets and property of the Petitioner Parties charged by the 2016 Notes Security, including without limitation the following to the extent charged by the 2016 Notes Security in each case, now owned or hereafter acquired, but excluding the DIP Lenders’ First Lien Collateral and Excluded JV Interests:

- (a) each Noteholder Proceeds Collateral Account and the proceeds therein as described in clause (g) below;
- (b) all fee interests in any real property;
- (c) (i) the leasehold interests for the lands and buildings located at 1050 United Boulevard, Coquitlam, British Columbia and legally described as PID: 017-513-294 Lot A District Lot 16 and 48 Group 1 New Westminster District Plan LMP1969 and in which a Petitioner Party has a leasehold interest pursuant to a lease made between a

Petitioner Party (resulting from an assignment by Norske Skog Canada Limited), as tenant, and Balaclava Holdings Ltd., as landlord, dated as of the 1st day of December, 2003 and registered in the Vancouver/ New Westminster land title office under number BV500248; (ii) the leasehold interests for the lands and buildings located at 10203 Robson Road, Surrey, British Columbia and legally described as PID: 004-501-110 Lot 14 District Lots 9, 10 and 11 Group 2 New Westminster District Plan 41612, PID: 023-512-512, Lot 1 District Lot 12 and 13, Group 2 and of the Bed of the Fraser River NWD Plan LMP29318 and PID: 009-523-197, Lot 1 of the Bed of the Fraser River New Westminster District Plan 76570 and in which a Petitioner Party has a leasehold interest pursuant to a sublease made between a Petitioner Party (resulting from an assignment by Norske Skog Canada Limited), as tenant, and Wesik Enterprises Ltd., as landlord, dated for reference the 12th day of June 1998 and registered in the Vancouver/New Westminster land title office under number BM250814; (iii) the leasehold interests arising under any waterlot or foreshore leases required for access to any of the facilities forming part of the Notes First Lien Collateral including without limitation the 18 waterlot and foreshore leases described in Schedule A to the Form B – Mortgage dated March 4, 2010 granted by Catalyst Paper Corporation in favour of the Collateral Trustee registered with the British Columbia Land Title Office under numbers CA1482421 and CA1482422; and (iv) all other leasehold interests acquired by a Petitioner Party after the date of this order that the Court determines to be material to the business of Catalyst Paper Corporation (together, the “**Notes Leasehold Collateral**”);

- (d) all equipment, machinery, fixtures, plants, tools and furniture;
- (e) all intangibles and intellectual property;
- (f) all records, documents, documents of title, investment property, financial assets, instruments, chattel paper, supporting obligations, commercial tort claims, letters of credit and letter of credit rights and other claims and causes of action, in each case, in connection with the foregoing;
- (g) all substitutions, replacements, accessions, products and proceeds (including, without limitation, insurance proceeds, payments, claims, damages and proceeds of suits) of any or all of the foregoing, including all identifiable proceeds of Notes First Lien Collateral, but for greater certainty excluding identifiable proceeds of DIP Lenders’ First Lien Collateral; and
- (h) the “ABL Snowflake Collateral” as that terms is defined in the Intercreditor Agreement.

“**Equity Securities**” means, with respect to any Person, any and all shares, interests, participations, rights in, or other equivalents (however designated and whether voting and non-voting) of, such Person’s capital, including any interest in a partnership, limited partnership or other similar Person and any beneficial interest in a trust, and any and all rights, warrants, debt securities, options or other rights exchangeable or convertible into any of the foregoing.

“**Governmental Authority**” means the government of Canada, the United States of America, any other nation or any political subdivision thereof, whether provincial, territorial, state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“**Person**” means any natural person, corporation, limited liability company, trust, joint venture, association, unincorporated association, joint stock company, company, Governmental Authority or other entity.

“**Subsidiary**” of any specified Person means any corporation, partnership, joint venture, limited liability company, association or other business entity, whether now existing or hereafter organized or acquired:

(a) in the case of a corporation, of which more than 50% of the total voting power of the Equity Securities entitled (without regard to the occurrence of any contingency) to vote in the election of directors, officers or trustees thereof is held by that first-named Person or any of its Subsidiaries; or

(b) in the case of a partnership, joint venture, limited liability company, association or other business entity, with respect to which that first-named Person or any of its Subsidiaries (i) owns, directly or indirectly, more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, of such, and (ii) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such partnership, joint venture, limited liability company, association or other business entity, and (iii) has the power to direct or cause the direction of the management and policies of that entity by contract or otherwise.

Definition of “Excluded Assets” from the Intercreditor Agreement attached as Exhibit “D” to the Baarda Affidavit

“**Excluded Assets**” means the following:

- (a) all Excluded Equipment and all motor vehicles and other equipment comprising “serial numbered goods” under the PPSA and any other applicable personal property security laws;
- (b) the following surplus assets and existing assets scheduled to be sold:
 - (i) those surplus lands relating to the Elk Falls co-generation facility legally described as PID: 001-233-432, District Lot 109, Sayward District, Except Parcel A (DD 285472-I) And Those Parts in Plans 1373-R, 16956, 50636, VIP54479 and VIP64521;
 - (ii) the Canadian Poplar Farm Lands;
 - (iii) the U.S. Poplar Farm Lands; and

(iv) all leasehold interests in real property other than the Leasehold Collateral;

provided, however, that at no time shall the sum of (x) the aggregate book value of all Excluded Assets referred to in this clause (b) plus (y) commencing 90 days after the Closing, the aggregate book value of all Leasehold Collateral for which appropriate third party consents to the granting of security therein have not been obtained by Catalyst or the applicable Guarantor, exceed \$25,000,000;

(c) all present and after acquired interests in real and personal property interests owned by any Subsidiary of Catalyst which is not a Guarantor or in the future required to be a Guarantor in accordance with the terms of the ABL Debt Documents, the Noteholder Secured Debt Documents or this Agreement (including the Powell River Energy Joint Venture), including any such interests owned jointly by Catalyst and any Subsidiary that is not a Guarantor as tenants-in-common (except to the extent that Catalyst's beneficial interest therein may be pledged in compliance with all applicable contractual and legal requirements, without any obligation on Catalyst to obtain any consent), or where Catalyst or any Guarantor holds such interest as nominee for any Subsidiary that is not a Guarantor, including those lands relating to the Powell River Energy Joint Venture legally described as:

(i) Parcel Identifier 002-560-194, Block 46, except those portions included in Plans 8519, 10829, Reference Plan 3573 and Explanatory Plan 6151 and Plans 12506 and 14689, District Lot 450 Plan 8096; and

(ii) Parcel Identifier 025-961-373, Lot F Blocks 43 and 46 District Lot 450 New Westminster District Plan BCP7701;

(d) all real property interests that are not fee interests or Leasehold Collateral;

(e) all Excluded Interests;

(f) all Excluded Equity Interests;

(g) any interest in real property acquired after the date hereof if the net book value of such interest is less than \$250,000; and

(h) any other property that would otherwise comprise Notes First Lien Collateral, so long as the aggregate book value of the Excluded Assets under this clause (h) does not exceed \$10,000,000 in the aggregate at any one time.

Schedule "E"

No. _____
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, CATALYST PULP
OPERATIONS LIMITED, CATALYST PULP SALES INC., PACIFICA POPLARS LTD.,
CATALYST PULP AND PAPER SALES INC., ELK FALLS PULP AND PAPER
LIMITED, CATALYST PAPER ENERGY HOLDINGS INC., 0606890 B.C. LTD.,
CATALYST PAPER RECYCLING INC., CATALYST PAPER (SNOWFLAKE) INC.,
CATALYST PAPER HOLDINGS INC., PACIFICA PAPERS, U.S. INC., PACIFICA
POPLARS INC., PACIFICA PAPERS SALES INC., CATALYST PAPER (USA) INC.,
AND THE APACHE RAILWAY COMPANY**

On January 31, 2012, upon the application of Catalyst Paper Corporation and certain of its subsidiaries (the "Company"), the Supreme Court of British Columbia (the "Court") granted an Order (the "Initial Order") under the *Companies' Creditors Arrangement Act* providing for an initial stay of proceedings through to February 14, 2012. PricewaterhouseCoopers Inc. was appointed as monitor (the "Monitor"). The Initial Order and a list of creditors, as represented by the Company, can be accessed by referring to the Monitor's website at www.pwc.com/car-catalystpaper (the "Website"). The Initial Order has provisions that affect the interest of creditors and other stakeholders of the Company. Interested parties are encouraged to check the Website frequently for updates as to the status of the proceedings. For further information, contact Ms. Patricia Marshall of PricewaterhouseCoopers Inc., at 604-806-7070 or by e-mail at patricia.marshall@ca.pwc.com.