



No. S-120712  
Vancouver Registry

**IN THE SUPREME COURT OF BRITISH COLUMBIA**

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

**AND**

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

**AND**

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

**AND**

**IN THE MATTER OF CATALYST PAPER CORPORATION AND THE  
PETITIONERS INCLUDED IN APPENDIX "A"**

**MONITOR'S THIRD REPORT TO COURT  
[Prepared for the February 14, 2012 Court Hearing]**

**February 13, 2012**

# **CATALYST PAPER CORPORATION, ET AL MONITOR'S THIRD REPORT TO COURT**

**February 13, 2012**

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# CATALYST PAPER CORPORATION, ET AL MONITOR'S THIRD REPORT TO COURT

**February 13, 2012**

## **1. INTRODUCTION**

- 1.1 On January 31, 2012 (the "Order Date"), on the application 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 (collectively referred to as "Catalyst" or the "Company"), the Supreme Court of British Columbia (the "Court") made an order (the "Initial Order") granting Catalyst protection from its creditors pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA"). Under the Initial Order, PricewaterhouseCoopers Inc. ("PwC") was appointed Monitor of the Companies (the "Monitor").
- 1.2 Pursuant to the Initial Order, among other things, all creditors were stayed from commencing or continuing any proceedings against Catalyst until February 14, 2012, the date set for a hearing to consider an extension of the proceedings pursuant to the CCAA (the "Comeback Hearing").
- 1.3 The Monitor has produced the following reports to date:
  - 1.3.1 A pre-filing report dated January 31, 2012 (the "Pre-filing Report");
  - 1.3.2 Report #1 dated February 2, 2012 (the "Monitor's First Report"); and,
  - 1.3.3 Report #2 dated February 6, 2012 (the "Monitor's Second Report").
- 1.4 This is the Monitor's Third Report to Court which has been prepared for the Comeback Hearing. The purpose of this report is to inform the Court of the following:
  - 1.4.1 The status of proceedings in the US Bankruptcy Court;
  - 1.4.2 An update on the Company's post-filing operations;
  - 1.4.3 The results of the discussions between the Monitor, the Company and the critical Suppliers;
  - 1.4.4 The Company's actual cash flow for the period January 31 to February 5, 2012;

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- 1.4.5 The Monitor's view on the structure and quantum of the D&O Charge; and
- 1.4.6 The Monitor's view on the Company's application for an extension of the Stay of Proceedings to April 30, 2012.

1.5 Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars. Capitalized terms not otherwise defined herein are as defined in the Company's application materials.

## **2. BACKGROUND**

- 2.1 The facts surrounding the Company's application for the Initial Order were set out in the Petition filed by Catalyst on January 31, 2012, a copy of which can be found on the monitor's website at: [www.pwc.com/car-catalystpaper](http://www.pwc.com/car-catalystpaper).
- 2.2 Summaries of the Company's consolidated financial results for the period January 1, 2008 to September 30, 2011 are contained in Appendix B.
- 2.3 The Company's results from operations for the 4<sup>th</sup> quarter ending December 31, 2011 have not yet been finalized and are subject to completion of the audit of the financial statements. The Company has advised the Monitor that these results will not be available until February 29, 2012.
- 2.4 A brief overview of the Company's operations and its financial position is provided in Appendix C. Profiles of its major manufacturing plants are contained in Appendix D.
- 2.5 On February 3, 2012, the Court made the Amended and Restated Initial Order, pursuant to which, among other things, the Initial Order was amended to authorize draws on the DIP Facility and to grant a charge on certain assets of the Company as security for the DIP Facility (the "DIP Charge").
- 2.6 On February 6, 2012, the Amended and Restated Initial Order was further amended by an Order (the "Critical Suppliers Order") pursuant to which, among other things, 16 of the Company's suppliers (the "Critical Suppliers") were designated as critical suppliers and ordered to provide trade credit to the Company on the same terms that existed on January 27, 2012 (the "Existing Supply Relationship"). A charge was ordered over the Company's assets to secure the credit to be extended by the Critical Suppliers. The

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Amended and Restated Initial Order (as amended by the Critical Suppliers Order) permits the Critical Suppliers to apply to rescind or amend the Critical Suppliers Order after March 11, 2012.

- 2.7 Hereafter in this report, the Amended and Restated Initial Order, as amended by the Critical Suppliers Order, is referred to as the "Current Initial Order".
- 2.8 Proceedings in the United States Bankruptcy Court for the District of Delaware (the "US Court") have been commenced in furtherance of the Company's restructuring:
  - 2.8.1 Following the commencement of the restructuring proceedings in Canada under the Canada Business Corporations Act ("CBCA"), on January 17, 2012, the Company sought provisional relief from the US Court pursuant to Chapter 15 of the United States Bankruptcy Code. On January 19, 2012 the CBCA proceedings were recognised as foreign main proceedings and a stay was ordered by the US Court.
  - 2.8.2 After the Initial Order was made in the CCAA proceedings, Amended Petitions and Pleadings were filed in the US Court on January 31, 2012 and an Amended Order (attached as Appendix E) providing provisional relief in respect of the CCAA proceedings was granted on February 1, 2012.
  - 2.8.3 On February 8, 2012, the US Court made an order for provisional relief enforcing and giving effect in the United States to all orders of this Court, including the Amended and Restated Initial Order and the Critical Suppliers Order. A copy of the US Court's Order made February 8, 2012 is attached as Appendix F.
  - 2.8.4 A hearing has been scheduled in the US Court for March 5, 2012 whereat the Company will seek a final order granting recognition of these proceedings as a foreign main proceeding pursuant to Chapter 15 of the US Bankruptcy Code.
- 2.9 The Monitor has set up a website at [www.pwc.com/car-catalystpaper](http://www.pwc.com/car-catalystpaper). All prescribed materials filed by Catalyst and the Monitor relating to this CCAA proceeding are available to creditors and other interested parties in electronic format on the Monitor's website. The website also contains materials relating to the proceedings in the US Court. The Monitor will continue to post regular updates to the website to ensure

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creditors and interested parties are kept current and to add prescribed materials as required.

## **3. POST-FILING OPERATIONS**

### *Customers & Sales*

- 3.1 Customers continue to place orders with the Company as expected. The Company has been proactive in its communication with its customers, and has held meetings and other discussions with key customers regarding the Company's restructuring. Although customers have expressed a desire to have more certainty about the Company's ability to continue to supply, to date there have been no volume losses or pricing impacts.

### *Operations & Employees*

- 3.2 The Company's operations have continued at pre-filing levels since the Initial Order was made.
- 3.3 The Company has discussed the restructuring process with the Company's labour unions and there have been no labour disruptions. To date, no critical staff members have resigned.

### *General Suppliers*

- 3.4 From the outset of the CCAA proceedings, the Company has generally continued to obtain raw materials, supplies and services from its existing suppliers in accordance with the terms of the Current Initial Order. There were disruptions to some shipments and services as suppliers became aware of the CCAA proceedings, but these disruptions have been resolved.
- 3.5 Since the date of filing, the Company's supply chain team has contacted suppliers to inform them of the provisions of the Current Initial Order, to discuss the impact of the CCAA filing on the supplier, and to confirm the ongoing business relationship. Catalyst is supplied by 2,500 suppliers and these calls with suppliers are ongoing. The major focus during the initial ten days of the filing was the largest and most vital suppliers.

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### *Critical Suppliers*

- 3.6 As indicated above, the Critical Suppliers Order amended the Amended and Restated Initial Order to designate 16 suppliers as Critical Suppliers and require them to, among other things, extend credit to the Company.
- 3.7 Pursuant to paragraph 25(b) of the Current Initial Order, the Monitor and the Company spoke directly with each of the Critical Suppliers on February 8 and 9, 2012 to discuss the terms of the Critical Suppliers Order, confirm the Existing Supply Relationship (including credit terms) and communicate the Individual Credit Extension Amount (“ICEA”) for each Critical Supplier.
- 3.8 As part of these discussions, the Monitor worked with the Company and certain of the Critical Suppliers to resolve differing views of the credit terms in the Existing Supply Relationship and the appropriate amount of the ICEA based on those terms. As of the date of this report, all but one of the Critical Suppliers have agreed with the Company and the Monitor as to the credit terms and amount of the ICEA.
- 3.9 At present, the total of the ICEAs is \$13.4 million. This is an increase of \$1.6 million from the \$11.8 million previously estimated by the Monitor. The ICEA for five suppliers were increased with their consent to account for the full scope of goods and services to be provided pursuant to the Current Initial Order, and the ICEA for two suppliers were decreased based on revised estimates of the level of activity with those suppliers.
- 3.10 It is possible that the aggregate amount of the ICEAs will change as a result of further discussions with the remaining Critical Supplier who has yet to confirm its acceptance of the credit terms and the amount of its ICEA as related to it by the Monitor.
- 3.11 The Monitor will be writing to each Critical Supplier to confirm each of their credit terms and the amount of their ICEA.
- 3.12 Pursuant to paragraph 25(h) of the Current Initial Order, the Monitor, in conjunction with the Company, will provide weekly reporting to each Critical Supplier as to the amount owing to each Critical Supplier according to the Company's records. The Monitor will also report the total exposure under the ICEAs to Canadian counsel for the

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2016 Steering Group and for the Ad Hoc Note holders on a weekly basis. The Monitor will begin providing this reporting in the week of February 13.

- 3.13 If the ICEA levels are not exceeded by either the Company or the Critical Suppliers, the maximum amount of the critical supplier charge (“CSC”) will be \$17.4 million, or 130% of the total of the ICEAs. The Company intends to limit its credit exposure with the Critical Suppliers to the respective amounts of the ICEAs.
- 3.14 The Monitor will report to this Court in the event that a Critical Supplier’s post-filing credit exposure exceeds the level set by its ICEA and such excess is not reduced forthwith upon notification to the Company.

### **4. CASH FLOW FOR THE PERIOD JANUARY 31 TO FEBRUARY 5, 2012**

- 4.1 The Company’s actual cash flow for the period January 31 to February 5, 2012 compared to the cash flow projections as presented in the Pre-filing Report (the “Projections”) are attached as Appendix G.
- 4.2 The Monitor’s comments on the Company’s actual cash flows for the period January 31, 2012 to February 5, 2012 are as follows:
  - 4.2.1 Operating receipts were \$14.1 million higher than projected due to higher than expected receipts during the initial days of the CCAA. The difference is a timing issue only and collections for the later part of February will be correspondingly lower.
  - 4.2.2 Operating disbursements were \$4.9 million lower than projected. At the beginning of the CCAA, logistical matters delayed making all forecasted disbursements, but this will reverse over the subsequent weeks. This is a timing difference only and there are no real savings achieved.
  - 4.2.3 Actual disbursements for CCAA restructuring costs were \$4.0 million, which was \$1.8 million lower than projected. Once again, the Monitor expects that this favourable variance is due primarily to timing differences.

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## **5. KEY EMPLOYEE RETENTION PLAN**

- 5.1 The Monitor has been directed by the Court to provide its analysis and recommendation on the appropriateness and reasonableness of the Key Employee Retention Plan (the “KERP”). The Monitor has performed a significant amount of work analyzing and considering the KERP; however, that work is not yet complete and the Monitor requires additional information and clarification from the Company and others regarding the KERP and its application under certain situations. Accordingly, the Monitor is not yet in a position to report to the Court its findings and conclusions. In terms of the outstanding questions raised by the Monitor, the Monitor is aware that more time sensitive and important matters have occupied the Company during the initial 10 days of this filing.
- 5.2 Although the application for approval of the KERP is being deferred, the Monitor reports that it has engaged in discussions with the Company and the bondholders who are opposing the KERP. As a result of those discussions, there is a prospect that the employees covered by the KERP may agree to surrender the letters of credit securing the KERP and take a charge against the Company's assets in substitution. The Company suggests that this would have the following effect:
  - 5.2.1 The protection for the employees would be structured in a matter that is more typical of conventional KERP security in a CCAA situation; and
  - 5.2.2 Liquidity would increase in the amount of approximately \$8.3 million, thereby benefitting the Company at a time when its liquidity is tight.
- 5.3 While the matter will not be dealt with at the Comeback Hearing, the Monitor points out that liquidity is very tight over the next four weeks and accordingly, the liquidity created if the letters of credit are cancelled are most needed over the next few weeks. Therefore, it may be appropriate that the application for approval of the KERP be heard at an early date.

## **6. D&O CHARGE**

- 6.1 The Current Initial Order provides for the indemnification by the Company of its directors and officers (collectively, “D&Os”) for any liabilities they might incur as D&Os after the commencement of the CCAA proceedings. As security for the Company’s

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indemnity obligations, the Current Initial Order provides for a charge in favour of the D&Os over the Charged Property (as defined in the Current Initial Order) up to the maximum amount of \$ 31 million (the “D&O Charge”).

- 6.2 The Monitor understands that the D&O Charge will be considered on a *de novo* basis at the Comeback Hearing. The Monitor has provided information and comments regarding the D&O Charge in both its Pre-filing Report and the Monitor’s First Report.
- 6.3 As noted in its previous reports, the Monitor supports the creation of a D&O Charge based on the following considerations:
  - 6.3.1 The D&Os could be exposed to certain potential liabilities (the “D&O Exposure”). The D&O Exposure for employment related liabilities and sales tax is \$14.5 million but grows at a rate of \$2.75 million per month in respect of vacation pay and post retirement benefits accruing post-filing to a maximum of \$31 million after six months. Other sources of potential D&O Exposure are not quantifiable at this time, but may include potential claims relating to environmental matters as well as derivative claims and oppression claims brought by any of the Company’s shareholders or noteholders, all of which may be significant and costly to defend.
  - 6.3.2 Insurance coverage totalling \$100 million is in place until the policies expire on May 1, 2012.
  - 6.3.3 The Current Initial Order provides that D&Os shall only be entitled to the benefit of the D&O Charge to the extent that that they do not have coverage under any D&O insurance policy. However, the Monitor notes the following factors in assessing the insurance protection available to the D&Os:
    - 6.3.3.1 As discussed in the Monitor’s Pre-filing Report, there are certain potential bases for D&O Exposure that are not covered by the policies.
    - 6.3.3.2 As discussed in the Monitor’s First Report, in the event the insurers deny coverage at the first instance, the D&Os will need recourse to the D&O Charge in order to fund any defence costs they may incur and to seek coverage under the policies.

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- 6.3.3.3 The policies expire May 1, 2012 and there is no certainty that the policies can be renewed. Further, if the policies are renewable, the cost of doing so will likely be significantly higher than in prior years.
- 6.3.3.4 The policies cover loss on a “claims made” basis, meaning that any claims must be reported prior to the expiry of the policies in order to be covered. Given the current state of this administration and the underlying issues of the Company, it may be difficult to report potential claims prior to May 1, 2012. Conversely, if the Company discontinued operations before that date, it would take some time for any claims, including, most significantly, employment related liabilities to be quantified and advanced against the D&Os, again making it difficult to properly report any such claims within the coverage period.
- 6.4 Clearly the D&Os would like a charge for the full \$31 million. The Monitor understands that the noteholders are of the view that a D&O Charge of \$31 million is excessive. The Monitor also understands that certain of the unions are of the view that the D&O Charge should be greater than \$31 million.
- 6.5 In considering the appropriate quantum of the charge, the Monitor considered the estimated amount of potential exposure for known and quantifiable potential claims, the fact that there may be other D&O claims in addition to employment related liabilities and sales tax liabilities that have been quantified, and the potential for actions by noteholders or shareholders as a result of re-capitalization actions that may not be viewed favourably by these parties.
- 6.6 Specifically, the Monitor considered the possibility of limiting the charge to an amount that may accrue during a future period that is less than the six month period assumed in the calculation of the current D&O Charge of \$31 million. The rationale for the reduced period would be that the re-capitalization efforts underway between the noteholders and the Company are targeted at completing the process in a period of time that is substantially less than six months. This approach is reasonable if a consensual agreement between the Company and the noteholders is likely in the near future.

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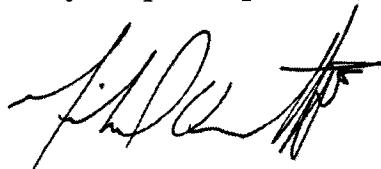
- 6.7 However, given the recent discussions between the stakeholders, it appears that this may not be a reasonable assumption from the D&Os perspective. Furthermore, the D&Os may become conflicted in their decision-making by virtue of having a relatively short time period during which the D&O Charge provides them with adequate coverage. As a result, there may be a tendency to favour decisions resulting in a quick resolution rather than decisions that provide the best longer term outcome for the Company. Accordingly, the Monitor is not in favour of a D&O Charge calculated on the basis of an arbitrary timeframe that may unintentionally influence decisions to be made by the D&Os.
- 6.8 Based on the above considerations, the Monitor recommends that the D&O Charge of \$31 million be confirmed.

### **7. RESTRUCTURING PROCESS & EXTENSION OF THE STAY**

- 7.1 The Company has advised the Monitor that it continues to work with its financial advisor, Perella Weinberg Partners LLP, to formulate a restructuring plan. The Monitor is aware that discussions between the Company and representatives for its bondholders continue.
- 7.2 The Company has applied for an extension of the stay of proceedings until April 30, 2012. The Monitor considers this period of approximately 10 weeks to be reasonable. As the Company has acted and continues to act in good faith and with due diligence, the Monitor supports the Company's request for an extension of the stay of proceedings.

This report is respectfully submitted this 13<sup>th</sup> day of February, 2012.

**PricewaterhouseCoopers Inc.  
Court Appointed Monitor of  
Catalyst Paper Corporation, et al**



**Michael J. Vermette  
Senior Vice President**

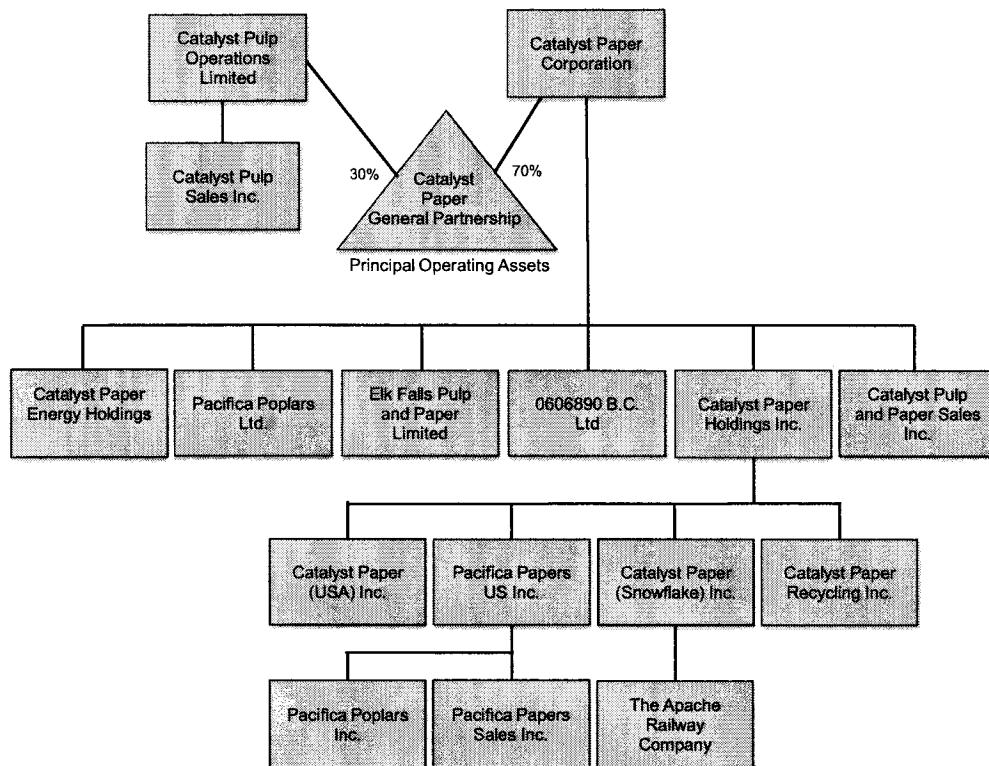


**Neil Bunker  
Vice President**

## **APPENDIX A**

### **Petitioner Parties Organization Chart**

**Catalyst Paper Corporation**  
**Petitioner Parties Organization Chart**



**Notes:**

1. Unless otherwise noted, Common share ownership is 100%. Preferred share ownership is not identified in this chart.

## **APPENDIX B**

**Summary Financial Results for the Period January 1, 2008 to  
September 30, 2011**

Catalyst Paper Corporation

(in millions of Canadian dollars)

Summary of Consolidated Financial Statements - Year Ended December 31

| Income Statement                                       | 2008 (audited) | 2009 (audited) | 2010 (audited) | YTD September 30,<br>2011 (unaudited) |
|--|----------------|----------------|----------------|---------------------------------------|
| Sales  | 1,866.7        | 1,223.5        | 1,228.6        | 941.7                                 |
| Cost of Sales, excluding depreciation and amortization | 1,611.8        | 1,037.6        | 1,113.6        | 874.1                                 |
| <b>Gross Margin</b>                                    | <b>254.9</b>   | <b>185.9</b>   | <b>115.0</b>   | <b>67.6</b>                           |
| Selling, general and administrative                    | 46.9           | 44.8           | 43.4           | 28.8                                  |
| Depreciation and amortization                          | 165.8          | 146.6          | 119.3          | 81.6                                  |
| Restructuring  | 30.1           | 17.9           | 25.3           | -                                     |
| Impairment and other closure costs                     | 151.0          | 17.4           | 294.5          | 150.3                                 |
| <b>Operating earnings (loss)</b>                       | <b>(138.9)</b> | <b>(40.8)</b>  | <b>(367.5)</b> | <b>(193.1)</b>                        |
| Interest expense                                       | (75.0)         | (69.3)         | (72.0)         | (55.0)                                |
| Foreign exchange gain (loss) on long-term debt         | (82.2)         | 75.3           | 27.6           | (23.7)                                |
| Other income (expense)                                 | 77.1           | 29.2           | 13.7           | 5.5                                   |
| <b>Net earnings (loss)</b>                             | <b>(219.0)</b> | <b>(5.6)</b>   | <b>(398.2)</b> | <b>(266.3)</b>                        |
| Balance Sheet  | 2008 (audited) | 2009 (audited) | 2010 (audited) | YTD September 30,<br>2011 (unaudited) |
| Assets   |                |                |                |                                       |
| Cash and cash equivalent                               | 5.0            | 83.1           | 95.4           | 17.8                                  |
| Other current assets                                   | 465.9          | 305.0          | 288.2          | 322.9                                 |
| Property, plant and equipment                          | 1,852.0        | 1,664.7        | 1,285.6        | 1,082.9                               |
| Other assets   | 100.5          | 38.0           | 27.0           | 26.6                                  |
| <b>Total Assets</b>                                    | <b>2,423.4</b> | <b>2,090.8</b> | <b>1,696.2</b> | <b>1,450.2</b>                        |
| Liabilities  |                |                |                |                                       |
| Current liabilities                                    | 345.2          | 174.3          | 198.6          | 178.7                                 |
| Long-term debt   | 882.9          | 774.6          | 783.9          | 840.1                                 |
| Employee future benefits                               | 226.6          | 294.6          | 269.1          | 263.9                                 |
| Other long-term liabilities                            | 98.7           | 51.7           | 41.2           | 31.9                                  |
| <b>Total Liabilities</b>                               | <b>1,553.4</b> | <b>1,295.2</b> | <b>1,292.8</b> | <b>1,314.6</b>                        |
| Shareholders' equity                                   |                |                |                |                                       |
| Share capital and contributed surplus                  | 1,049.6        | 1,051.4        | 1,051.6        | 1,051.8                               |
| Retained earnings (deficit)                            | (174.7)        | (185.1)        | (582.0)        | (848.0)                               |
| Accumulated other comprehensive income (loss)          | (4.9)          | (52.7)         | (46.1)         | (47.2)                                |
| Non-controlling interest (deficit)                     |                | (18.0)         | (20.1)         | (21.0)                                |
| <b>Total Equity</b>                                    | <b>870.0</b>   | <b>795.6</b>   | <b>403.4</b>   | <b>135.6</b>                          |
| <b>Total Liabilities and Shareholders' equity</b>      | <b>2,423.4</b> | <b>2,090.8</b> | <b>1,696.2</b> | <b>1,450.2</b>                        |

Source: Publicly available information

Catalyst Paper Corporation

(in millions of Canadian dollars)

Summary of Consolidated Financial Statements - Year Ended December 31

| Statement of Cash Flows                                   | 2008 (audited) | 2009 (audited) | 2010 (audited) | YTD September 30,<br>2011 (unaudited) |
|---|----------------|----------------|----------------|---------------------------------------|
| <b>Cash flows provided (used) by:</b>                     |                |                |                |                                       |
| Operations  |                |                |                |                                       |
| Net earnings (loss)                                       | (221.1)        | (5.6)          | (398.2)        | (266.3)                               |
| Items not requiring (providing) cash                      | 331.9          | 43.7           | 366.6          | 236.1                                 |
| Changes in non-cash working capital                       | (35.1)         | 65.5           | (12.5)         | (37.3)                                |
| <b>Cash flows used by operations</b>                      | <b>75.7</b>    | <b>103.6</b>   | <b>(44.1)</b>  | <b>(67.5)</b>                         |
| Investing   |                |                |                |                                       |
| Additions to property, plant and equipment                | (211.7)        | (11.5)         | (11.2)         | (13.5)                                |
| Other cash flows provided (used) by investing activities  | 8.8            | 8.6            | 6.7            | 0.8                                   |
| <b>Cash flows used by investing activities</b>            | <b>(202.9)</b> | <b>(2.9)</b>   | <b>(4.5)</b>   | <b>(12.7)</b>                         |
| Financing   |                |                |                |                                       |
| Issue of shares, net of share issue costs                 | 121.1          | -              | -              | -                                     |
| Proceeds (repayment) of loan                              | 13.0           | (45.6)         | (14.5)         | 31.5                                  |
| Proceeds (repayment) of notes                             | -              | (26.9)         | 89.2           | (25.8)                                |
| Proceeds (repayment) of other long term debt              | 3.6            | 53.0           | (1.0)          | -                                     |
| Other cash flows provided (used) by financing activities  | (5.5)          | (3.1)          | (12.8)         | (3.1)                                 |
| <b>Cash flows provided (used) by financing activities</b> | <b>132.2</b>   | <b>(22.6)</b>  | <b>60.9</b>    | <b>2.6</b>                            |
| Cash, increase (decrease) in the period                   | 5.0            | 78.1           | 12.3           | (77.6)                                |
| Cash, beginning of the period                             | -              | 5.0            | 83.1           | 95.4                                  |
| <b>Cash, end of the period</b>                            | <b>5.0</b>     | <b>83.1</b>    | <b>95.4</b>    | <b>17.8</b>                           |

Source: Publicly available information

## **APPENDIX C**

### **Overview of Company Operations and Financial Position**

## Company Operations

- The Company manufactures specialty paper, newsprint and pulp at four manufacturing facilities located in British Columbia and Arizona. The Company maintains a regional administration office in Nanaimo, British Columbia, has its head office in Richmond, British Columbia, operates a distribution centre in Surrey British Columbia and operates a small spur railroad servicing the Snowflake mill. The Company shut down its mill in Elk Falls, B.C. in July 2010 and is in the process of liquidating. The Company shut down its paper recycling division located in Coquitlam, BC in February, 2010.
- Production capacities for the four operating mills are summarized below:

Capacity by Mill Location and Product Line

| Mill Location                  | Number of paper machines | Specialty printing papers |                   |                | Newsprint      | Pulp           | Total            |
|--------------------------------|--------------------------|---------------------------|-------------------|----------------|----------------|----------------|------------------|
|                                |                          | Uncoated mechanical       | Coated mechanical | Directory      |                |                |                  |
| Crofton, B.C.                  | 3                        | -                         | -                 | 145,000        | 291,000        | 370,000        | 806,000          |
| Port Albernie, B.C.            | 2                        | -                         | 223,000           | 115,000        | -              | -              | 338,000          |
| Powell River, B.C.             | 3                        | 449,000                   | -                 | -              | 30,000         | -              | 479,000          |
| Snowflake, Arizona             | 2                        | 48,000                    | -                 | -              | 289,000        | -              | 337,000          |
| <b>Total capacity (Tonnes)</b> | <b>10</b>                | <b>497,000</b>            | <b>223,000</b>    | <b>260,000</b> | <b>610,000</b> | <b>370,000</b> | <b>1,960,000</b> |

Source: Publicly available information

- Production capacity at the Crofton mill is currently approximately 140,000 tonnes less than presented above due to the shut down of one of its paper machines.
- The Company sources wood chips from sawmilling operations in and around Vancouver Island and the southwest coast of British Columbia. Pulp logs sourced from the same region are also chipped specifically to feed the mills in British Columbia.
- The Company sources Old Newspaper Pulp from various locations in the USA for its mill in Snowflake, Arizona.
- Pulp and paper produced from the Company's B.C. mills are shipped to the Surrey distribution centre before being shipped to the Company's customers. Paper produced at Snowflake is shipped directly to the Company's customers.

- The Company employs over 2100 personnel as outlined in the table below:

**Catalyst Paper Corporation**  
**Employee Population by Location**

| Location                           | Salaried Employees | Hourly Employees | Total Active Employees |
|------------------------------------|--------------------|------------------|------------------------|
| Crofton                            | 98                 | 471              | 569                    |
| Elk Falls                          | 4                  | 1                | 5                      |
| Powell River                       | 63                 | 347              | 410                    |
| Port Alberni                       | 54                 | 261              | 315                    |
| Nanaimo                            | 35                 | -                | 35                     |
| Richmond                           | 138                | -                | 138                    |
| Fibre Supply                       | 6                  | -                | 6                      |
| Snowflake                          | 57                 | 213              | 270                    |
| Apache Railroad                    | 5                  | 22               | 27                     |
| USA                                | 15                 | -                | 15                     |
| Paper Recycling                    | 1                  | -                | 1                      |
| Surrey Distribution                | 12                 | 74               | 86                     |
| <b>Subtotal - active employees</b> | <b>488</b>         | <b>1,389</b>     | <b>1,877</b>           |
| Inactive employees                 | 59                 | 187              | 246                    |
| <b>Total Employees</b>             | <b>547</b>         | <b>1,576</b>     | <b>2,123</b>           |

*Source: Company information*

- Employees at each of the mills and the Surrey distribution center are unionized.
- The Company sells market pulp and its paper to customers primarily in Asia. Product is shipped to customers using rail or truck, depending upon the location of the customer.
- A summary of revenues and product volumes sold by product is contained in the table below:

**Sales revenue and volume by product type**

|                               | <b>Specialty printing<br/>papers</b> | <b>Newsprint</b> | <b>Pulp</b> |
|-------------------------------|--------------------------------------|------------------|-------------|
| <b>2010 (Audited)</b>         |                                      |                  |             |
| Sales revenue                 | 700.1                                | 303.5            | 225.0       |
| Sales tonnes                  | 873.3                                | 491.3            | 276.6       |
| <b>YTD September 30, 2011</b> |                                      |                  |             |
| Sales revenue                 | 515.9                                | 223.9            | 201.9       |
| Sales tonnes                  | 645.2                                | 346.0            | 246.9       |

*(Sales in \$ millions, production thousands of tonnes)*

*Source: Public Information*

## Company Assets

- The Company's assets as at September 30, 2012 are summarized in appendix B.
- Cash is maintained in both US and Canadian currencies at bank accounts in both the United States and Canada. The Company's cash management system was described in detail in Affidavit #1 of Brian Baarda, the Company's CFO, sworn January 31, 2012 and filed in these CCAA proceedings.
- The majority of the Company's receivables are trade receivables owing from customers, denominated in both US and Canadian currencies. The September 30, 2011 accounts receivable balance was \$156.0 million (including \$140.6m of trade receivables).
- The Company's inventories as at September 30, 2011 are summarized in the table below:

| Inventory  | September 30, 2011<br>(unaudited) |
|--|-----------------------------------|
| Finished goods                                     |                                   |
| Specialty printing papers                          | 29.9                              |
| Newsprint  | 6.8                               |
| Pulp   | 1.2                               |
| Total finished goods                               | <b>37.9</b>                       |
| Work-in-progress                                   | 1.0                               |
| Raw materials – wood chips, pulp logs and other    | 29.0                              |
| Operating and maintenance supplies and spare parts | 74.5                              |
| <b>Total inventory</b>                             | <b>142.4</b>                      |

*Source: Public Information*

- Property plant and equipment relate primarily to the Company's four mills. A profile of each mill is located in Appendix D

## Company Liabilities

- The Company's liabilities as at September 30, 2011 are summarized in the table below:

| Liabilities at September 30, 2011               | \$'millions    |
|---|----------------|
| <b>Asset Based Loan facility</b>                | <b>31.5</b>    |
| <b>Accounts payable and accrued liabilities</b> |                |
| Trade payables                                  | 102.8          |
| Other   | 28.9           |
| <b>Subtotal</b>                                 | <b>131.7</b>   |
| <b>Payroll related liabilities</b>              |                |
| Accrued payroll and related liabilities         | 30.7           |
| Employee future benefits                        | 277.7          |
| <b>Subtotal - payroll related liabilities</b>   | <b>308.4</b>   |
| <b>Long term debt</b>                           |                |
| Recourse debt                                   |                |
| Senior secured notes - 11.0% due 2016           | 424.3          |
| Senior notes - 7.375% due 2014                  | 262.0          |
| Capital lease obligations                       | 11.0           |
| <b>Subtotal - recourse debt</b>                 | <b>697.3</b>   |
| Non-recourse debt                               |                |
| First mortgage bonds - 6.447% due 2016          | 95.0           |
| Subordinated promissory notes                   | 18.8           |
| <b>Subtotal - non-recourse debt</b>             | <b>113.8</b>   |
| <b>Subtotal - long term debt</b>                | <b>811.1</b>   |
| <b>Other Liabilities</b>                        |                |
| Other long-term obligations                     | 17.9           |
| Future Income Taxes                             | 4.4            |
| Deferred Credits                                | 9.6            |
| <b>Subtotal - long term debt</b>                | <b>31.9</b>    |
| <b>Total</b>                                    | <b>1,314.6</b> |

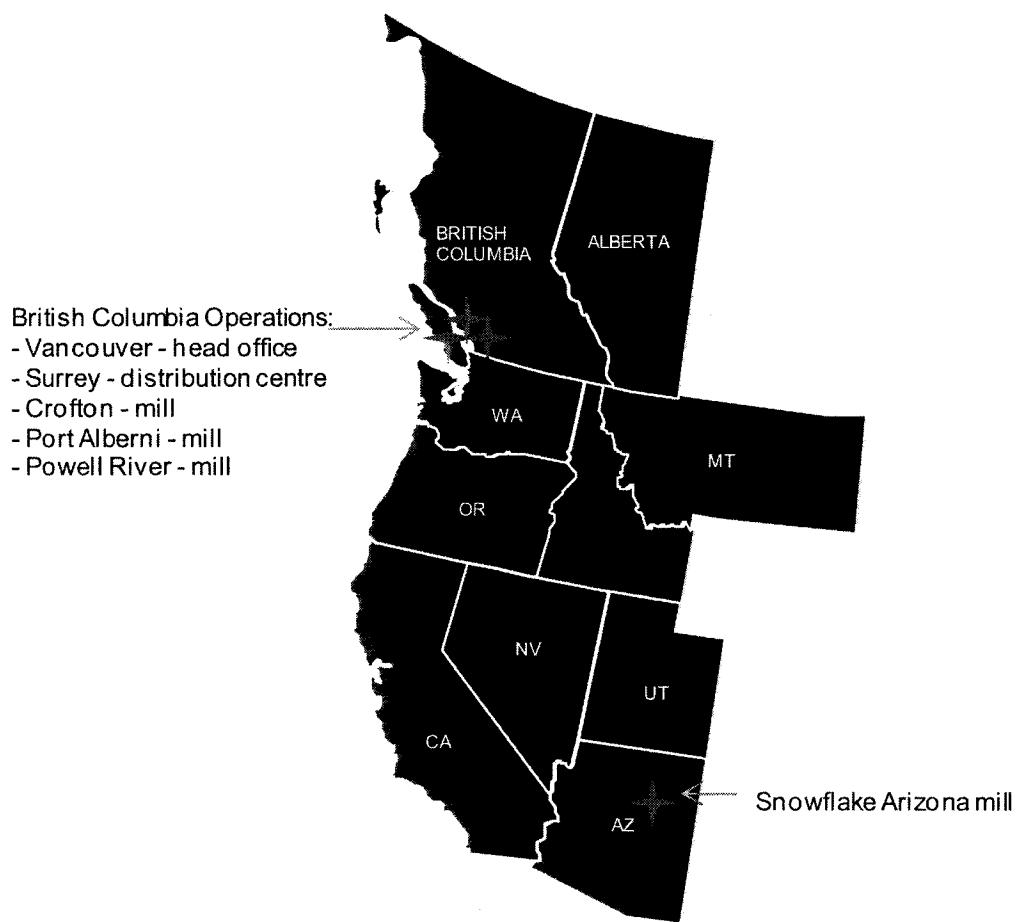
- The Asset based loan facility ("ABL") is secured by a first charge on the accounts receivable, inventory and cash of the Company and over the Snowflake mill property, plant and equipment and related rail operation, subject to the change in priorities per the Initial Order. Trade payables relate to amounts owing to suppliers and service providers and as at September 30, 2011 the balance was \$102.8 million.

- As at September 30, 2011, other accounts payable and accrued liabilities includes accrued payroll liabilities (\$30.7m); accrued interest (\$16.9m); liabilities associated with restructuring activities (\$0.2m); property taxes and arrears (\$0.9m); payables related to capital projects (\$4.1m) and other payables (\$6.8m).
- The employee future benefits liabilities relate to pension plan liabilities and the liability for post retirement benefits. The Company maintains pension benefit plans for all salaried employees, which include defined benefit and defined contribution plans. In addition, the Company contributes to industry pension plans for most of its unionized employees. Post retirement benefits relate primarily to medical, extended health and dental coverage provided to employees of the Canadian mills after they have retired.
- The 2016 notes are secured by a first charge over substantially all of the Company's assets excluding those assets to which the ABL is secured with a first charge, subject to the change in priorities per the Initial Order. Interest is incurred at 11% with maturity dates of June and December 2016. The 2014 notes are unsecured with interest incurred at 7.375% and a maturity date in March 2014.
- The first mortgage bonds (\$95.0m) and subordinated promissory notes (\$18.8m) are non-recourse debt that relate to Powel River Energy Inc. ("PREI"), an entity that Catalyst has a 50.001% interest in. For financial statement purposes PREI is considered a variable interest entity and its accounts are consolidated with Catalyst. PREI is not included in the CCAA proceedings as noted above.

## **APPENDIX D**

### **Manufacturing Plant Profiles**

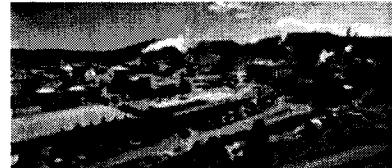
# Catalyst Paper Corporation Facilities



## Crofton, BC

**Description:**

- Integrated paper and pulp manufacturing division with three paper machines and two pulp machines

**Location:**

- 104 hectare site
- 8541 Hay Road, Crofton, BC
- Population 2,500

**Age:**

- Built in 1954

**Operations:**

- Paper and pulp facility.

**Production:**

- Newsprint 291,000 tonnes
- Directory 145,000 tonnes
- NBSK pulp 370,000 tonnes

**Employees and Labour Unions:**

- Total of 569 active employees
- 539 permanent full time employees, 1 permanent part time 5 temporary and 24 on short term leave.
- Employees are unionized with the Pulp and Paperworkers Union of Canada and the Communications, Energy and Paperworkers Union.

**Licenses and Permits:**

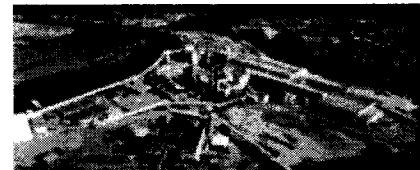
- Air permit PA 01902
- Land fill permits PR 506 & PR 07399
- Effluent permit PE 114

**Operational Status:**

- Operating

## Port Alberni, BC

|                                     |  |
|-------------------------------------|--|
| <b>Description:</b>                 | <ul style="list-style-type: none"><li>▪ Produces lightweight and coated paper.</li></ul>   |
| <b>Location:</b>                    | <ul style="list-style-type: none"><li>▪ 44 hectare site</li><li>▪ 4000, Stamp Avenue , Port Alberni, BC</li><li>▪ Population 25,000</li></ul>  |
| <b>Age:</b>                         | <ul style="list-style-type: none"><li>▪ Built in 1947</li></ul>  |
| <b>Operations:</b>                  | <ul style="list-style-type: none"><li>▪ Paper manufacturing division with 2 paper machines</li></ul>   |
| <b>Production:</b>                  | <ul style="list-style-type: none"><li>▪ Specialty printing – 338,000 tonnes</li></ul>  |
| <b>Employees and Labour Unions:</b> | <ul style="list-style-type: none"><li>▪ Total of 315 active employees</li><li>▪ 307 permanent full time employees, 1 employee on working notice and 7 on short term leave.</li><li>▪ Employees are unionized with the Communications, Energy and Paperworkers Unions 630 and 1123.</li></ul> |
| <b>Licenses and Permits:</b>        | <ul style="list-style-type: none"><li>▪ Air permit PA 1863</li><li>▪ Land fill permits PR 1751</li><li>▪ Effluent permit PE 0266</li></ul>   |
| <b>Operational Status:</b>          | <ul style="list-style-type: none"><li>▪ Operating.</li></ul>   |



## Powell River, BC

**Description:**

- Produces newsprint and uncoated mechanical specialty papers

**Location:**

- 94 hectare site
- 5775 Ash Avenue, Powell River, BC
- Population – 13,000

**Age:**

- Over 100 years old

**Operations:**

- Paper manufacturing division with 3 paper machines

**Production:**

- Specialty printing – 449,000 tonnes
- Newsprint – 30,000 tonnes

**Employees and Labour Unions:**

- Total of 410 active employees
- 394 permanent full time employees, 1 permanent part time employee, 1 temporary employee and 14 on short term leave.
- Employees are unionized with the Communications, Energy and Paperworkers Unions 1 and 76.

**Licenses and Permits:**

- Air permit PA 3149
- Land fill permits PR 0465
- Effluent permit PE 153

**Operational Status:**

- Operating.

## **Snowflake, AZ**

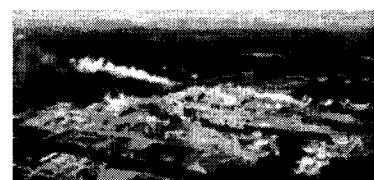
|                                     |  |
|-------------------------------------|--|
| <b>Description:</b>                 | <ul style="list-style-type: none"><li>▪ Produces 100% recycled newsprint.</li></ul>  |
| <b>Location:</b>                    | <ul style="list-style-type: none"><li>▪ 19,000 acre site</li><li>▪ 277 Spur North, Snowflake, AZ</li><li>▪ Population – 5,221</li></ul>  |
| <b>Age:</b>                         | <ul style="list-style-type: none"><li>▪ Built In 1961</li></ul>  |
| <b>Operations:</b>                  | <ul style="list-style-type: none"><li>▪ Paper manufacturing division with 2</li><li>▪ paper machines</li></ul>   |
| <b>Production:</b>                  | <ul style="list-style-type: none"><li>▪ Specialty printing – 48,000 tonnes</li><li>▪ Newsprint – 289,000 tonnes</li></ul>  |
| <b>Employees and Labour Unions:</b> | <ul style="list-style-type: none"><li>▪ Total of 270 active employees</li><li>▪ 260 permanent full time employees and 10 on short term leave.</li><li>▪ Employees were unionized with the United Steelworkers of America and International Brotherhood of Electrical Workers</li></ul> |
| <b>Operational Status:</b>          | <ul style="list-style-type: none"><li>▪ Operating.</li></ul>   |



## **Elk Falls, BC – Permanently Closed**

**Location:**

- 78 hectare site
- 4405 North Island Hwy, Campbell River, BC
- Population – 31,000 (Campbell River)



**Age:**

- Built in 1952

**Operations:**

- Paper manufacturing division with 3
- paper machines

**Production:**

- Specialty printing – 153,000 tonnes
- Newsprint – 373,000 tonnes

**Employees and Labour Unions:**

- Employees were unionized with the Communications, Energy and Paperworkers Unions 630 and 1123.

**Operational Status:**

- Permanent closure was announced on July 6, 2010.

### **Paper Recycling Division, Coquitlam, BC - Permanently Closed**

**Location:**

- Located on leased land.
- 1050 United Boulevard, Coquitlam, BC.

**Age:**

- Built in 1991.

**Operations:**

- Produced de-inked pulp for paper machines operated by the Company's mills.

**Production:**

- 148,000 tonnes.

**Employees and Labour Unions:**

- Total of 10 active employees as at April, 2010 after being indefinitely shutdown in February 2010.
- Employees were unionized with the Christian Labour Association of Canada.

**Operational Status:**

- Permanently closed in February 2010.

## **APPENDIX E**

**US Bankruptcy Court order made February 1, 2012 – Amended  
Order Granting Provisional Relief for Recognition of Foreign  
(CCAA) Proceeding**

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

----- X  
In re: : Chapter 15  
: Case No. 12-10221 (PJW)  
CATALYST PAPER CORP., et al., : Jointly Administered  
: Debtors.<sup>1</sup> : Related Docket No. 38  
----- X

**AMENDED ORDER GRANTING PROVISIONAL RELIEF FOR  
RECOGNITION OF FOREIGN PROCEEDING  
PURSUANT TO 11 U.S.C. §§ 105(a), 1517, 1519, 1520, AND 1521**

Upon consideration of the amended motion (the “Amended Motion”)<sup>2</sup> of Catalyst Paper Corporation (“CPC”), in its capacity as the authorized foreign representative for the above-captioned debtors (collectively, the “Debtors” and, together with their non-debtor affiliates, the “Company”) in a proceeding (the “CCAA Proceeding”) under Canada’s *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended, *Canada Business Corporations Act*, R.S.C.

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

<sup>2</sup> Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Motion.

1985, c. C-44, and *Business Corporations Act*, S.B.C. 2002, c.57, pending before the Supreme Court of British Columbia (the “Canadian Court”), pursuant to sections 105(a), 1517, 1519, 1520, and 1521 of title 11 of the United States Code (the “Bankruptcy Code”), seeking: (a) entry of this amended provisional order (this “Amended Provisional Order”) applying sections 362 and 365(e) of the Bankruptcy Code in these Chapter 15 Cases, pursuant to sections 1519(a)(1) – (a)(3), 1521(a)(7), and 105(a) of the Bankruptcy Code; (b) entry of a final order (the “Recognition Order”) after notice and a hearing (i) granting the petitions in these cases and recognizing the CCAA Proceeding as a foreign main proceeding under section 1517 of the Bankruptcy Code or, in the alternative, granting the petitions in these cases, recognizing the CCAA Proceeding as a foreign main proceeding under section 1517 of the Bankruptcy Code with respect to the Canadian Debtors and recognizing the CCAA Proceeding as a foreign nonmain proceeding under section 1517 of the Bankruptcy Code with respect to the U.S. Debtors, (ii) giving full force and effect in the United States to any and all orders that have been or will be made or entered in the CCAA Proceeding, including without limitation, the Initial CCAA Order and any forthcoming final order approving the restructuring transaction to be effected through the CCAA Proceeding (collectively, the “Canadian Orders”), including any extensions or amendments thereof authorized by the Canadian Court, and (iii) granting the Debtors’ postpetition lenders certain protections afforded by the Bankruptcy Code; and (c) granting such other and further relief as this Court deems just and proper; and upon the Second Baarda Declaration and the Memorandum of Law; and it appearing that this Court has jurisdiction to consider the Amended Motion pursuant to 28 U.S.C. §§ 157 and 1334; and it appearing that venue of these cases and the Amended Motion in this District is proper pursuant to 28 U.S.C. § 1410(1); and it appearing that this matter is a core proceeding pursuant to 28 U.S.C. § 157(b)(2); and due and sufficient notice

of the Amended Motion having been given; and it appearing that no other or further notice need be given under the circumstances; and upon the record of the hearing on the Amended Motion; and the Court having found and determined that the relief sought in the Amended Motion is consistent with the purpose of chapter 15 of the Bankruptcy Code and that the legal and factual bases set forth in the Amended Motion establish just cause for the relief granted herein; and after due deliberation and sufficient cause appearing therefor,

THE COURT HEREBY MAKES THE FOLLOWING FINDINGS OF FACT  
AND CONCLUSIONS OF LAW:

A. There is a substantial likelihood that CPC will be able to demonstrate that the Debtors are subject to a foreign main proceeding or, in the alternative, that the Canadian Debtors are subject to a foreign main proceeding and the U.S. Debtors are subject to a foreign nonmain proceeding, and that the Chapter 15 Cases were properly commenced by a properly-appointed foreign representative.

B. The commencement or continuation of any action or proceeding in the United States with respect to the Debtors or any of the Debtors' assets or proceeds thereof, except for with respect to obligations owing under the DIP Facility which are governed by the terms and conditions set forth below, should be enjoined pursuant to sections 105(a), 362, and 1519 of the Bankruptcy Code to permit the expeditious and economical administration of the Debtors' assets and recapitalization in the CCAA Proceeding, and the relief requested either will not cause an undue hardship, or any hardship to parties in interest is outweighed by the benefits of the relief requested in the Amended Motion.

C. Unless the automatic stay is applied in these Chapter 15 Cases, there is a material risk that the Debtors' assets in the United States could be subject to efforts by creditors

or other parties in interest to control or possess such assets. Such acts could: (a) interfere with and cause harm to the jurisdictional mandate of this Court under chapter 15 of the Bankruptcy Code; (b) interfere with and cause harm to the Debtors' efforts to administer their assets and reorganize pursuant to the CCAA Proceeding; and (c) undermine CPC's efforts to achieve an equitable result for the benefit of all of the Debtors' creditors. Accordingly, there is a material risk that the Debtors may suffer immediate and irreparable injury for which they will have no adequate remedy at law and therefore it is necessary that the Court enter this Amended Provisional Order.

D. CPC has demonstrated that without the protection of section 365(e) of the Bankruptcy Code, there is a material risk that counterparties to certain of the Debtors' contracts may take the position that the commencement of the CCAA Proceeding or the Chapter 15 Cases authorizes them to terminate such contracts or accelerate obligations thereunder. Such termination or acceleration will severely impair the Debtors' restructuring efforts and result in irreparable damage to the value of the Debtors' estates and substantial harm to the Debtors' creditors and other parties in interest.

E. CPC has demonstrated that no injury will result to any party that is greater than the harm to the Debtors' business, assets, and property in the absence of the requested relief.

F. The interests of the public will be served by this Court's entry of this Amended Provisional Order.

Based on the foregoing findings of fact and conclusions of law,

**IT IS HEREBY ORDERED THAT:**

1. The Amended Motion is GRANTED.

2. Pending disposition of the Amended Chapter 15 Petitions and the Amended Motion for a final order (the “Recognition Date”), pursuant to sections 1519(a)(1) – (a)(3) and 1521(a)(7) of the Bankruptcy Code, section 362 of the Bankruptcy Code is applicable to the Debtors and the property of the Debtors within the territorial jurisdiction of the United States in the Chapter 15 Cases; provided, however, that nothing in this paragraph 2 shall limit, abridge, or otherwise effect the rights afforded the DIP Lender under the DIP Term Sheet and the Debtors’ authorization to make certain payments as permitted by any order of the Canadian Court and subject to the terms and conditions set forth therein as further noted below. A copy of the DIP credit agreement will be filed with this Court upon execution.

3. Section 365(e) of the Bankruptcy Code is applicable to the Debtors in these Chapter 15 Cases. Any provision of the type described in section 365(e)(1) is unenforceable against the Debtors until such time as an order disposing of the Chapter 15 Petitions is entered.

4. Upon entry of this Amended Provisional Order no creditor or counterparty affected by the CCAA Proceeding (which, for greater certainty, exempts JPMorgan Chase Bank, N.A., Toronto Branch in its capacity as DIP Agent with respect to obligations owing under the DIP Facility from the operation of the stay of proceedings, subject to the terms and conditions set forth below, and includes, but is not limited to, the 2014 Noteholders and 2016 Noteholders (each as defined in the Second Baarda Declaration) or any party acting on their behalf), shall have the right to make, commence, or enforce any rights, guarantees or security documents to which the Debtors are party.

5. Upon the occurrence of and during the continuance of an Event of Default under the DIP credit agreement or any other documents relating to the DIP Facility

(collectively, the “DIP Loan Documents”), the DIP Agent and the DIP Lender are entitled to exercise rights and remedies under the DIP Loan Documents and take any other action or exercise any other right or remedy permitted to the DIP Agent or the DIP Lender under the DIP Loan Documents or by operation of law without further relief from the automatic stay pursuant to section 362(a) of the Bankruptcy Code, or further order of or application to this Court; provided, however, that the DIP Agent and DIP Lender may not exercise their rights under this paragraph with respect to any Collateral (as defined in the DIP credit agreement) located within the United States without first providing to counsel for the Debtors, counsel to certain of the 2016 Noteholders, counsel to certain of the 2014 Noteholders, counsel for the Monitor in the CCAA Proceeding, and the U.S. Trustee five (5) business days’ written notice of any such Event of Default and the proposed exercise of rights and remedies. Nothing in this order or by operation of law, including section 362(a) of the Bankruptcy code, shall prejudice, impair or otherwise affect the rights of the DIP Agent and DIP Lender, as provided in the DIP Loan Documents, to suspend or terminate the making of loans or other advances under the DIP Loan Documents.

6. Nothing herein shall enjoin a police or regulatory act of a governmental unit, including a criminal action or proceeding against any party to the extent set forth in sections 362(b) and 1521(d) of the Bankruptcy Code.

7. CPC, in connection with its appointment as the foreign representative, is entitled to the protections and rights available pursuant to sections 1519(a)(1), (a)(2) and (a)(3) of the Bankruptcy Code, to the extent such relief is not inconsistent with the Canadian Orders.

8. Pursuant to Rule 65(b) of the Federal Rules of Civil Procedure, made applicable to these proceedings pursuant to Bankruptcy Rule 7065, no notice to any person is

required prior to entry and issuance of this Amended Provisional Order. The security provisions of Rule 65(c) of the Federal Rules of Civil Procedure, as made applicable by Bankruptcy Rule 7065, are waived.

9. Notice of: (a) the filing of the Amended Chapter 15 Petitions and the Amended Motion; (b) this Court's entry of this Amended Provisional Order; (c) the deadline to object to this Court's entry of the Recognition Order; and (d) the hearing for this Court to consider the Amended Chapter 15 Petitions and entry of the Recognition Order (the "Notice"), along with a copy of this Amended Provisional Order shall be served by U.S. or Canadian mail, first-class postage prepaid or by overnight courier, within three (3) business days of the entry of this Amended Provisional Order upon the Notice Parties.<sup>3</sup> With respect to parties to litigation pending in the United States in which any of the Debtors is a party at the time of filing the Amended Chapter 15 Petitions in these chapter 15 cases, any parties who are represented by counsel shall be served at the address of their counsel of record. In addition, Debtors shall file a copy of the Notice and a copy of this Amended Provisional Order on the docket of such pending litigation matters. Service of the Amended Chapter 15 Petitions, the Amended Motion and this Amended Provisional Order (the "Amended Petition Documents") in accordance with

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<sup>3</sup> Pursuant to this Court's *Order (I) Specifying Form and Manner of Service of Notice of Filing of Petitions and Other Pleadings Pursuant to Chapter 15 of the Bankruptcy Code and (II) Scheduling a Hearing on Chapter 15 Petitions for Recognition* [Docket No. 23] (the "Notice Order"), the Notice Parties include: (i) all entities against whom provisional relief is being sought under section 1519 of the Bankruptcy Code (excluding employees); (ii) all parties to litigation pending in the United States in which any of the Debtors are parties at the time of the filing of the Chapter 15 Petitions; (iii) the United States Trustee; (iv) the Debtors; (v) counsel to certain 2016 Noteholders (as described in the Notice Order); (vi) counsel to certain 2014 Noteholders (as described in the Notice Order); (vii) counsel to the Administrative Agent for the Debtors' postpetition credit facility, J.P. Morgan Chase Bank, N.A., Toronto; (viii) all other known parties who claim interests in or liens upon the assets owned by the Debtors in the United States; (ix) all governmental taxing authorities who have or may have claims, contingent or otherwise, against any Debtor; (x) governmental pension, environmental and Medicare entities; (xi) the Attorneys General of Delaware, California and Arizona; (xii) the Attorney General of the United States; (xiii) the Internal Revenue Service; (xiv) all relevant taxing authorities; and (xv) all parties who have requested notice.

this paragraph shall constitute due and sufficient notice of the Amended Petition Documents and any relief of this Court associated therewith.

10. The Amended Petition Documents shall also be made publicly available upon request at the offices of CPC's counsel, Skadden, Arps, Slate, Meagher & Flom LLP, 300 S. Grand Ave., Suite 3400, Los Angeles, CA 90071, Attn: Annie Li, Esq., or Skadden, Arps, Slate, Meagher & Flom LLP, One Rodney Square, P.O. Box 636, Wilmington, DE 19899, Attn: Christine Kim, Esq.

11. A hearing to consider entry of the Recognition Order shall be held on March 5, 2012 at 9:30a.m. (prevailing Eastern Time) (the "Recognition Hearing"). Any responses or objections to the Amended Chapter 15 Petitions or the entry of the Recognition Order shall (a) be made in writing, describe the basis therefore, and indicate the nature and extent of the respondent's interests in the Debtors' cases, and (b) be filed with the Office of the Clerk of the Court, 824 Market Street, Third Floor, Wilmington, Delaware 19801, and served upon: (A) counsel for CPC as foreign representative: Skadden, Arps, Slate, Meagher & Flom LLP, 300 South Grand Avenue, Suite 3400, Los Angeles, CA 90071, Attn: Van C. Durrer, II, Esq.; (B) counsel for the Debtors: Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, BC V7X 1L3, Canada, Attn: William C. Kaplan, Esq.; (C) counsel for certain 2016 Noteholders<sup>4</sup>: Akin Gump Strauss Hauer & Feld LLP, One Bryant Park, New York, NY 10036-6745, Attn: Stephen Kuhn, Esq., Meredith Lahaie, Esq., Michael Stamer, Esq.; (D) counsel for certain 2014 Noteholders<sup>5</sup>: Goodmans LLP, Bay Adelaide Centre, 333 Bay Street, Suite 3400, Toronto, ON M5H 2S7,

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<sup>4</sup> Representing an informal group of 2016 Noteholders.

<sup>5</sup> Representing an informal group of 2014 Noteholders.

Canada, Attn: Robert Chadwick, Esq., Melaney Wagner, Esq.; (E) JPMorgan Chase, as DIP Facility agent: (i) McMillan LLP, Brookfield Place, Suite 4400, 181 Bay Street, Toronto, ON M5J 2T3, Canada, Attn: R.D. Jeffrey Rogers, Esq., (ii) JPMorgan Chase Bank, N.A., Toronto Branch, c/o JPMorgan Chase Bank, N.A., 3 Park Plaza, Suite 900, Irvine, CA 92614, Attn: Annaliese Fisher, (iii) JPMorgan Chase Bank, N.A., Toronto Branch, 200 Bay Street, South Tower, Suite 1800, Toronto, Ontario M5J 2J2, Canada, Attn: Agostino Marchetti; (F) the Office of the United States Trustee, 844 King Street, Suite 2207, Lockbox 35, Wilmington, DE 19801, Attn: David Buchbinder, Esq.; (G) counsel for PwC: Fasken Martineau DuMoulin LLP, 2900 – 550 Burrard Street, Vancouver, BC V6C 0A3, Canada, Attn: John Grieve, Esq., Kibben Jackson, Esq.; (H) PricewaterhouseCoopers, 250 Howe Street, Suite 700, Vancouver, British Columbia V6C 3S7 on or before **4:00 p.m. (prevailing Eastern Time) on**

February 28, 2012.

12. The date and time of the Recognition Hearing, in CPC's sole discretion, may be adjourned to a subsequent date without further notice except for an in-court announcement on the record at the Recognition Hearing, or a filing by CPC on the docket of the Chapter 15 Cases, of the date and time to which the Recognition Hearing has been adjourned.

13. Notwithstanding any provision in the Bankruptcy Rules to the contrary: (a) this Amended Provisional Order shall be effective immediately and enforceable upon its entry and shall remain effective until either (i) entry of an order recognizing the CCAA Proceeding and, pursuant to section 1521(a)(6), extending the relief granted herein, or (ii) entry of an order denying recognition to the CCAA Proceeding; (b) neither CPC nor the DIP Lender (to the extent provided in paragraph 2 above) are subject to any stay in the implementation,

enforcement or realization of the relief granted in this Amended Provisional Order; and (c) CPC is authorized and empowered, and may in its discretion and without further delay, take any action and perform any act necessary to implement and effectuate the terms of this Amended Provisional Order.

14. This Court shall retain jurisdiction with respect to any matters, claims, rights or disputes arising from or related to the Amended Motion or the implementation of this Amended Provisional Order.

Dated: February 1, 2012  
Wilmington, Delaware

  
\_\_\_\_\_  
Honorable Peter J. Walsh  
UNITED STATES BANKRUPTCY JUDGE

## **APPENDIX F**

**US Bankruptcy Court Order Made February 8, 2012 – Order  
Granting Provisional Relief Enforcing Canadian Court Order in  
Connection with Debtor in Possession Financing**

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

----- X -----  
In re: : Chapter 15  
: Case No. 12-10221 (PJW)  
CATALYST PAPER CORP., et al., : Jointly Administered  
Debtors. : Related Docket No.: 55  
----- X -----

**ORDER FOR PROVISIONAL RELIEF ENFORCING CANADIAN COURT ORDER IN  
CONNECTION WITH DEBTOR IN POSSESSION FINANCING PURSUANT TO  
11 U.S.C. §§ 105(A), 1519 AND 1521**

Upon consideration of the motion (the “Motion”)<sup>1</sup> of Catalyst Paper Corporation (“CPC”), as the authorized foreign representative for itself and its above-captioned affiliates (collectively, the “Debtors” and, together with their non-debtor affiliates, the “Company”) in a proceeding (the “CCAA Proceeding”) under Canada’s Companies’ Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the “CCAA”), pending before the Supreme Court of British Columbia (the “Canadian Court”), for the entry of an order, pursuant to sections 105(a), 1519 and 1521 of title 11 of the United States Code (the “Bankruptcy Code”), enforcing and giving effect in the United States to all orders of the Canadian Court, including, but not limited to, the Canadian Court’s Amended and Restated Initial Order, dated February 3, 2012 (the “Amended Initial CCAA Order”), the Canadian Court’s Order Made After Application, dated February 6, 2012, concerning critical suppliers (the “CCAA Critical Supplier Order” and together with the Amended Initial CCAA Order and other orders of the Canadian Court, collectively, the “CCAA Order”) (i) authorizing the Debtors to obtain and borrow and reborrow (and obtain the issuance

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<sup>1</sup> Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Motion.

of letters of credit and other financial accommodations) under a revolving credit facility (the “DIP Facility”) to be made available by the administrative agent, JPMorgan Chase Bank, N.A., Toronto Branch (“JPMorgan” or the “DIP Agent”) as the DIP Agent and as lender and letter of credit issuer and the other lenders (together with the DIP Agent, collectively, the “DIP Lenders”) from time to time party to the credit agreement, dated February 3, 2012 (the “DIP Credit Agreement”), substantially in the form attached to the Third Declaration of Brian Baarda filed contemporaneously with the Motion (the “Third Baarda Declaration”), (ii) granting the DIP Lenders a lien and court ordered charge (the “DIP Lenders’ Charge”) on the DIP Collateral as security for the DIP Facility and (iii) granting related relief; and upon consideration of the Second Declaration of Brian Baarda [Docket No. 39], the Amended Motion for Provisional Relief and Final Recognition of a Foreign Proceeding Pursuant to 11 U.S.C. §§ 105(A), 1517, 1519, 1520, and 1521 [Docket No. 38] and the Third Baarda Declaration; and upon further consideration of the record of the hearing on the Motion having been held before this Court; and due, sufficient, and proper notice of the Motion and the relief requested therein having been provided; and it appearing that no other or further notice need be provided; and it appearing that the relief requested in the Motion is in the best interests of the Debtors and other parties in interest in this chapter 15 case (the “Chapter 15 Cases”); and after due deliberation and sufficient cause appearing therefor,

**IT IS HEREBY FOUND** that:<sup>2</sup>

A. CPC has demonstrated that the borrowing under the DIP Facility authorized by the CCAA Initial Order is necessary to prevent an immediate and irreparable harm and a

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<sup>2</sup> Findings of fact shall be construed as conclusions of law, and conclusions of law shall be construed as findings of fact, pursuant to Bankruptcy Rule 7052.

deterioration of value of the Debtors' assets, which could result in a significantly reduced recovery to the Debtor' creditors and stakeholders.

B. CPC has demonstrated that the terms under which the DIP Facility was extended, as approved by the Canadian Court in the CCAA Initial Order, are fair and reasonable.

C. The relief granted herein is urgently needed to protect the assets of the debtor or the interests of the creditors pursuant to section 1519 of the Bankruptcy Code.

D. The relief granted herein is necessary and appropriate, in the interest of the public and international comity, consistent with the public policy of the United States, and warranted pursuant to section 1521 of the Bankruptcy Code, and will not cause any hardship to any parties in interest that is not outweighed by the benefits of the relief granted.

E. The DIP Facility has been the subject of extensive negotiations conducted in good faith and at arms' length between the Debtor and the DIP Lenders, and the proceeds to be extended under the DIP Facility will be so extended in good faith and for valid business purposes and uses.

F. The Debtor was unable to obtain sufficient comparable financing on an unsecured basis.

G. The CCAA Initial Order authorizes the Debtors to obtain, borrow and reborrow under the DIP Facility and grants certain Charges securing the Debtors' obligations as follows:

- (I) With respect to the Debtors' property which constitutes the DIP Lenders' First Lien Collateral, the priorities of the Charges, ABL Facility Security, and the 2016 Notes Security, as among themselves, the Debtors' priority scheme is as follows: (1) the Administration Charge; (2) the DIP Lenders' Charge; (3) the ABL Facility Security; (4) the D&O Charge and (5) the 2016 Notes.
- (II) With respect to the Debtors' property which constitutes 2016 Notes First Lien Collateral, the priority of the Charges, the 2016 Notes Security, the ABL Facility Security, as among themselves, the Debtors' priority scheme is as follows: (1) the Administration Charge; (2) the D&O Charge; (3) the

2016 Notes Security; (4) the DIP Lenders' Charge and (5) the ABL Facility Security.

(III) In connection with the DIP Facility, the DIP Lenders' Charge is subordinate to the following (but only to the extent, in each case, that the following are not subordinate to claims over which the DIP Lenders' Charge has priority): (x) 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 Loan Documents, but in each case, only in respect of the specific purchased or leased property under the arrangements giving rise to the purchase money security interests and (y) 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* or subsection 86(2) of the *Employment Insurance Act (Canada)*.

**NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED** that:

1. The Motion is granted.
2. The CCAA Order, including any amendments thereto, is hereby enforced and given full force and effect in the United States.
3. As provisional relief in aid of the CCAA Order, the DIP Lenders' Charge and priorities as set forth in the CCAA Order, including Paragraphs 41-63 of the Amended Initial CCAA Order, are hereby enforced against the DIP Collateral in accordance with the terms of the Initial CCAA Order.
4. Subject to the terms and conditions of the DIP Facility as approved by the Canadian Court, the Debtors are authorized to execute all necessary documentation related to the DIP Facility and to pay and perform all of its indebtedness, interest, fees, liabilities, and obligations to the DIP Lenders when the same become due and are to be performed. The DIP Agent, in its discretion, may (but is not required to in order for the DIP Lenders' Charge and priorities to be enforceable) file a photocopy of this Order and/or the CCAA Order as a financing statement, notice of lien, or similar document with any recording officer designated to file financing statements, notices of lien or similar documents in any U.S. jurisdiction, and in such

event, the subject filing or recording officer shall be authorized to file or record such copy of this Order and/or the CCAA Order.

5. If any of the provisions of this Order related to the DIP Facility or the DIP Lenders' Charge shall subsequently be stayed, modified, amended, reversed or vacated in whole or in part (collectively a "Modification") whether by subsequent order of this Court or on appeal from this Order, such Modification shall not impair, limit or diminish the DIP Lenders' Charge, or the protections, rights or remedies of the DIP Lenders, whether under this Order (as entered prior to the Modification) or under any of the documentation delivered pursuant hereto, including with respect to any advances made prior to entry of the Modification.

6. Notwithstanding anything to the contrary in the DIP Loan Documents or the CCAA Order, no lien, charge or encumbrance of any kind is or shall be granted in any of the CIT Assets (as defined in Schedule A attached hereto).

7. Subject to paragraph 6 hereof, the Debtors' obligations under the 2016 Notes indenture shall be secured by valid, perfected liens on the Charged Property (as such term is defined in the Amended Initial CCAA Order) in the relative priorities set forth in paragraphs 51 and 52 of the Amended Initial CCAA Order. For purposes of clarity, the term "Charged Property" includes, among other things, the Debtors' current and future assets, undertakings and properties of every nature and kind whatsoever.

8. Nothing in this Order shall affect the rights of Wilmington Trust, National Association, in its capacity as indenture trustee under the 2016 Note indenture, or any holder of the 2016 Notes (including, for the avoidance of doubt, one or more members of the 2016 Steering Group (as defined in the Amended Initial CCAA Order)) to request adequate protection

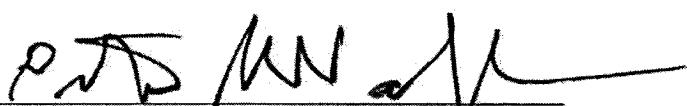
as of the Petition Date pursuant to the Bankruptcy Code, or the rights of any party in interest to respond to such request, and all such rights are expressly preserved.

9. The notice given by the Debtors of the Motion and of the hearing of the Motion was proper and, under the circumstances, was adequate and sufficient. No further notice of the request for the relief granted at such hearing is required.

10. Within three (3) business days of entry of this Order, the Debtors shall serve a copy of this Order upon the Notice Parties.<sup>3</sup>

11. This Court shall retain jurisdiction with respect to any matters, claims, rights or disputes arising from or related to the Motion or the implementation of this Order.

Dated: February 8, 2012  
Wilmington, Delaware



Honorable Peter J. Walsh  
UNITED STATES BANKRUPTCY JUDGE

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<sup>3</sup> Pursuant to this Court's *Order (I) Specifying Form and Manner of Service of Notice of Filing of Petitions and Other Pleadings Pursuant to Chapter 15 of the Bankruptcy Code and (II) Scheduling a Hearing on Chapter 15 Petitions for Recognition* [Docket No. 23] (the "Notice Order"), the Notice Parties include: (i) all entities against whom provisional relief is being sought under section 1519 of the Bankruptcy Code (excepting employees); (ii) all parties to litigation pending in the United States in which any of the Debtors are parties at the time of the filing of the Chapter 15 Petitions; (iii) the United States Trustee; (iv) the Debtors; (v) counsel to certain 2016 Noteholders (as described in the Notice Order); (vi) counsel to certain 2014 Noteholders (as described in the Notice Order); (vii) counsel to the Administrative Agent for the Debtors' postpetition credit facility, J.P. Morgan Chase Bank, N.A., Toronto; (viii) all other known parties who claim interests in or liens upon the assets owned by the Debtors in the United States; (ix) all governmental taxing authorities who have or may have claims, contingent or otherwise, against any Debtor; (x) governmental pension, environmental and Medicare entities; (xi) the Attorneys General of Delaware, California and Arizona; (xii) the Attorney General of the United States; (xiii) the Internal Revenue Service; (xiv) all relevant taxing authorities; and (xv) all parties who have requested notice.

### Schedule A: CIT Assets

#### Catalyst Paper (USA) Inc.

1. NRS02002 – 100 boxcars
  - Master Railcar Lease dated as of October 15, 2009 and Schedule No. 02 thereto
  - Lessor – CIT Railcar Funding Company, LLC (as successor in interest to The CIT Group/Equipment Financing, Inc.)

#### The Apache Railway Company

1. APAC01001 – 70 coal hopper cars
  - Master Net Railcar Lease dated as of June 1, 2006 and Schedule No. 01 thereto, as amended by Extension to Lease Schedule No. 01
  - Lessor – C.I.T. Leasing Corporation
2. APAC01002 – 5 coal cars
  - Master Net Railcar Lease dated as of June 1, 2006 and Schedule No. 02 thereto
  - Lessor – The CIT Group/Equipment Financing, Inc.
3. APAC02001 – 12 coal cars
  - Letter Agreement dated December 20, 2006
  - Lessor – Flex Leasing I, LLC
4. APAC02002 – 3 coal cars
  - Master Net Railcar Lease dated as of November 30, 2010 and Schedule No. 02 thereto
  - Lessor – Flex Leasing I, LLC

## **APPENDIX G**

**Statement of Actual Cash Flow for the period January 31 to  
February 5, 2012**

**Catalyst Paper Corporation**  
**Cash Flow Budget vs. Actual Analysis**  
**In CAD\$ millions**

| Period                                     | 31-Jan to 5-Feb |               |             |
|--|-----------------|---------------|-------------|
|  | Actual          | Projected     | Variance    |
| <b>Receipts - Operating</b>                |                 |               |             |
| Collection of Trade Accounts Receivable    | 15.9            | 6.0           | 9.9         |
| Collection of Other Accounts Receivable    | 4.6             | 0.4           | 4.2         |
| <b>Total Receipts - Operating</b>          | <b>20.5</b>     | <b>6.4</b>    | <b>14.1</b> |
| <b>Disbursements - Operating</b>           |                 |               |             |
| Raw Material and Freight Costs             | (5.8)           | (5.1)         | (0.7)       |
| Production and Operating Costs             | (0.7)           | (6.9)         | 6.2         |
| Employee Costs                             | (3.3)           | (2.7)         | (0.6)       |
| Property Tax/Insurance/Other Taxes         | -               | (0.0)         | -           |
| <b>Total Disbursements - Operating</b>     | <b>(9.8)</b>    | <b>(14.8)</b> | <b>4.9</b>  |
| <b>Net Operating Cash Flows</b>            | <b>10.7</b>     | <b>(8.4)</b>  | <b>19.0</b> |
| <b>Disbursements - Non-Operating</b>       |                 |               |             |
| Restructuring Professional Fees            | -               | -             | -           |
| CCAA Restructuring Costs                   | (4.0)           | (5.8)         | 1.8         |
| DIP Interest & Loan Fees                   | -               | (0.0)         | -           |
| Other Interest Income (Expenses)           | (0.4)           | -             | (0.4)       |
| <b>Total Disbursements - Non-Operating</b> | <b>(4.4)</b>    | <b>(5.8)</b>  | <b>1.4</b>  |
| <b>Net Receipts (Disbursements)</b>        | <b>6.3</b>      | <b>(14.2)</b> | <b>20.4</b> |