



This is the 1<sup>st</sup> affidavit of  
W. Dickson in this case and was  
made on February 10, 2012

No. S-120712  
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

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

AND

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

AND

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

AND

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

PETITIONERS

**AFFIDAVIT**

I, William F. Dickson, Q.C., businessperson, c/o 2<sup>nd</sup> Floor, 3600 Lysander Lane,  
Richmond, British Columbia, AFFIRM THAT:

1. I am a Director of Catalyst Paper Corporation ("**CPC**"), a Petitioner in this proceeding (along with the other Petitioners and Catalyst Paper General Partnership, the "**Company**"), and as such I have personal knowledge of the matters deposed to in this

Affidavit except where I depose to a matter based on information from an informant I identify, in which case I believe that both the information from the informant and the resulting statement are true.

2. I have been on the Board of Directors of CPC since July 9, 2008 and am the Chair of the Governance Committee.

3. I am also Chairman of Fraserwood Industries Ltd., a family-owned timber remanufacturing business. I am a former partner of and counsel to Lawson Lundell LLP where I practiced corporate and commercial law for over 30 years. I am a graduate of Dalhousie and Harvard Law Schools and was appointed Queen's Counsel in 2004.

4. The Board of Directors of the Company has a sub-committee of independent directors, the Human Resources and Compensation Committee (the "**HRCC**"), discussed in greater detail below. Prior to July 30, 2010, I was a member of the HRCC.

5. In the late summer of 2011, the HRCC retained an independent consultant, Towers Watson, a global professional services firm, to provide a report (the "**Towers Watson Report**") developing and recommending a change-in-control and retention program for key employees of the Company (the "**KERP**"). The Board implemented the KERP for sixteen (16) employees (the "**KERP Participants**").

### **Background**

6. In August 2011, the Board of Directors determined that, in the context of a potential recapitalization and restructuring, a program to ensure that the Company retained key employees should be considered. The Board was concerned that key employees could be recruited elsewhere, or begin looking for alternative employment especially with the foreseeable increase in workload, responsibility and job stress typically associated with the recapitalization process. The Board was also concerned that if a restructuring did not occur, the Company could find itself in insolvent circumstances and key employee retention would be very difficult.

7. At that time, the Board of Directors of CPC was comprised of the following individuals: Thomas S. Chambers, Kevin J. Clarke, Benjamin C. Duster, IV, Douglas P. Hayhurst, Denis Jean, Jeffrey G. Marshall, Alan B. Miller, Geoffrey Plant, M. Dallas H. Ross and myself (collectively, the “**Board of Directors**”). All but one of the members of the Board of Directors, Kevin Clarke, who is also Chief Executive Officer of the Company, are independent directors.

8. I am aware that several members of the Board of Directors have experience in restructuring companies, or have been involved in companies that have themselves experienced insolvency or similar financial distress. In particular, two members of the HRCC, Mr. Marshall and Mr. Miller, have such experience as described below. From the commencement of the HRCC process relating to the retention issue in a restructuring context, the members of the Board and, I am advised by Mr. Marshall, particularly the HRCC were aware of the risks and difficulties associated with losing key employees. The intention of the KERP was to retain key employees through the restructuring and to promote incentives to those key employees in order to continue employment through and after any restructuring in order to secure a longer term stability for the Company.

9. The HRCC is made up entirely of independent directors. The HRCC comprised the following members at all material times:

- (a) Jeffrey G. Marshall: Mr. Marshall is the Chair of the HRCC. I am advised by Mr. Marshall that he is chairman of Smith Marshall, a strategic partnership which provides business consulting services to industry. From 1997 to 2003 he was the President and Chief Executive Officer of Aluma Enterprises Inc., a construction technology company. Prior to that, he was the President and Chief Executive Officer of Ontario Clean Water Agency. He was also the President and Chief Executive Officer of Marshall Drummond McCall Inc. and Marshall Steel Limited. I am informed by Mr. Marshall that these latter two companies experienced financial difficulties and Mr. Marshall gained experience in dealing with companies in difficult financial circumstances and that he was Chairman of the Independent Committee and the Compensation Committee of Neenah Foundry Company of Neenah, Wisconsin, which filed under Chapter 11 of the U.S. Bankruptcy Code and exited in 2010.
- (b) Alan B. Miller: Mr. Miller is a Senior Counsel with, and a retired senior partner of, Weil, Gotshal & Manges LLP. He has advised me that he has

been advising companies on business reorganizations and restructuring since 1966. He has been a fellow of the American College of Bankruptcy and a member of the Committees on Bankruptcy and Reorganization of the Association of the Bar of the City of New York. Among the matters in which he has played an important role is the purchase of Trans World Airlines by American Airlines. He also played significant roles in the business reorganizations of Rockefeller Center Properties, Drexel Burnham Lambert, Texaco, MCorp, New World Pasta Company, Viasystems, Inc., International Wire Company, Thermadyne Corporation, Formica Corporation, Coram Healthcare Corporation, Crystal Brands, Kasper A.S.L. Ltd., Leslie Fay, Maidenform, The Charter Companies, Braniff Airways and Lionel. He is also a Senior Advisor to Chanin Capital Partners, Inc., a company that has served as financial advisor in connection with numerous business restructurings, including those of Dura Automotive Systems, Calpine, Home Interiors & Gifts, Inc., and Adelphia; and

- (c) M. Dallas H. Ross: I am advised by Mr. Ross that he is General Partner and Founder of Kinetic Capital Partners. Prior to that Mr. Ross was Managing Director, Investment Banking and Managing Director, Mergers & Acquisitions with ScotiaMcLeod. Mr. Ross is also President & CFO of Westshore Holdings Ltd. and the CFO of Westshore Investments Ltd.; and
- (d) Thomas S. Chambers: I am advised by Mr. Chambers is that he President of Senior Partner Services Ltd., which provides business advisory services. He is a chartered accountant and a retired partner of PricewaterhouseCoopers LLP. He is a member of the Institute of Corporate Directors. He is also a member of the boards of directors of Coopers Park Corporation, MacDonald Dettwiler & Associates Ltd., and Viterra Inc.

10. In the summer of 2011, the Board charged the HRCC with the responsibility of considering a key employee retention policy for the Company. At that time the Company was considering ways to amend its capital structure as publicly disclosed.

11. In early August 2011, Peter Staiger, Vice President and Treasurer of the Company, was recruited by Resolute Forest Products. At that time, Mr. Staiger provided notice to the Company that he was leaving his employment to take up the same position of Treasurer with Resolute Forest Products. The CEO of Resolute Forest Products was, and remains, Richard Garneau, former President and CEO of the Company. I was personally aware that Resolute Forest Products would likely attempt to recruit key

personnel and Mr. Staiger's departure provided greater concern. The Board and, I am informed by Mr. Marshall, the HRCC shared my concern.

12. In late August 2011, I am informed by Mr. Marshall that the HRCC consulted and eventually retained Towers Watson to assist and advise the HRCC in its development of the KERP.

13. Following the departure of Mr. Staiger on September 9, 2011, I am informed by Mr. Marshall that the HRCC expedited the process of defining and recommending a KERP and was specifically concerned about the risk of recruitment from Resolute Forest Products and other competitors given the Company's circumstances. Since the KERP has been implemented, no key employees have been recruited away from the Company or sought employment elsewhere.

14. When Towers Watson commenced their evaluation, there was already a short-term incentive plan (the "STIP") in place, which was a plan to provide variable pay based on the achievement of measurable corporate and individual performance objectives. Due to the Company's performance, no STIP has been paid for 2011, although I am informed by Mr. Marshall that, at the time of the Towers Watson Report, that was not then certain.

15. In August 2010, the Company had implemented a medium-to-long term incentive plan ("MLTIP") which provided cash and equity-based awards over a two-year period. In excess of half of the KERP Participants are part of the MLTIP. In December 2011, there was a payment made to all recipients under the MLTIP, which amounted in aggregate to approximately \$1.1 million. There is one payment outstanding on the MLTIP, which is scheduled to be paid in August 2012. Half of the KERP Participants also participate in the Supplemental Executive Retirement Plan ("SERP"). All amounts under the SERP have vested or will vest later this year.

16. I am advised by Mr. Marshall that Towers Watson considered that both the MLTIP and the SERP provided little retentive value to those KERP Participants who were participants in either or both of them. Towers Watson took into account the

incentives that certain KERP Participants could receive from the STIP, the MLTIP, the SERP and other retention arrangements when it structured and proposed the KERP.

17. I am advised by Mr. Marshall that the HRCC put forward the names of potential key employees for review and consideration by Towers Watson. Those names were put forth by the HRCC based on the nature of the key employee's job requirements and duties, the perceived importance of the key employee to a restructuring process, and the perceived risk that the key employee would either be a recruitment target or consider alternative employment without potential compensation assurances.

18. Towers Watson engaged in an analysis of the Company's key employees, including a comparative market analysis of similar change in control and retention programs provided by the Company's competitors including AbitibiBowater Inc. Towers Watson's preliminary recommendations throughout their review were considered by the HRCC and discussed with the Board and refined through that process.

19. On or about October 26, 2011, Towers Watson issued the Towers Watson Report which provided the HRCC with a proposed framework for the KERP.

20. The Towers Watson Report categorized the employees into three tiers based on the respective KERP Participant's position and level of responsibility. Each member of a particular tier received the same percentage of their salary in the calculation of their Retention Amount Payment (defined below) and CIC Amount (defined below). I am informed by Mr. Marshall that the HRCC requested that Towers Watson ensure that the amounts provided for on termination were not less than provided under the employee's written employment contract or the employee's common law entitlement.

21. Mr. Marshall has informed me that the HRCC recommended some modifications to the Towers Watson Report, including ensuring that the common law entitlements of KERP Participants with very significant seniority – we have some employees included in the KERP that have been with the Company for over thirty years – were adequately considered.

22. The HRCC recommended, and the Board approved, the KERP for the KERP Participants, substantially based upon the recommendations of the Towers Watson Report. On October 31, 2011, the Board of Directors approved the KERP. During this meeting, no beneficiaries of the KERP were present. John Hammond, director of Towers Watson, was present and was available for the questions of the Board. On November 14, 2011, the Board of Directors provided final approval of the KERP and approved the retention and change in control agreements in the form presented to it. Only the independent directors participated in the vote approving the KERP.

### **The Key Employee Retention Program**

23. A summary of the material terms of the KERP are attached hereunder as **Exhibit "A"**.

24. The Retention Amount Payments and a portion of the CIC Amount under the KERP are secured by letters of credit held by a trustee for the benefit of the KERP Participants and the Company in accordance with the terms of a trust agreement dated December 16, 2011 (the "**Trust Agreement**"). The Retention Amount Payments under the KERP are secured by a letter of credit in the amount of \$4,262,000 and the CIC Amount is secured by a letter of credit in the amount of \$4,000,000. The Trust Agreement provides that the trustee may draw all amounts under the letters of credit if certain conditions are fulfilled sixty days following the filing of a CCAA petition.

25. The Board adopted the recommendation of Towers Watson to secure the KERP with a letter of credit arrangement because otherwise the security for the KERP's obligations was inadequate. The Board considered that the KERP would not be effective if there was no certainty that amounts could be paid.

26. I am informed by Mr. Marshall that both Towers Watson and the HRCC were of the view that it was unlikely that any KERP Participants would be entitled to receive the full amounts available to them under the KERP.

27. Of the KERP Participants, four have written contracts that have a defined severance amount. Of these four, two were provided a higher percentage on CIC than

their contractual entitlement. For individuals without contractual protection, I am informed by Mr. Marshall that Towers Watson and the HRCC considered their length of service. The percentages used to calculate the CIC amount are roughly equivalent to those entitlements under common law.

**The KERP Participants**

28. As a result of the CCAA process, many of the KERP Participants have taken on additional workload while working towards a viable going concern solution for the Company's financial challenges including:

- (a) liaising with the Monitor, legal counsel, the lenders under the Company's debtor-in-possession financing, and other advisors to the Company;
- (b) providing strategic advice and recommendations to the Board of Directors when requested; and
- (c) addressing the concerns of the Company's broad stakeholder constituency.

29. I am advised by Brian Baarda that over the course of the last few months certain of the KERP Participants have been contacted by competitors of the Company and have been approached by employment recruitment firms. For reasons of confidentiality, he did not name those individuals.

30. The Company considers it likely that many of the KERP Participants have received, or will receive, alternative employment offers. The Company believes that if the Company is not permitted to make the payments under the KERP to the KERP Participants, many of the KERP Participants will take advantage of and/or seek other opportunities.

31. The HRCC advised the Board that after its review it was satisfied that the KERP Participants possess knowledge, experience and skills that are vital to the Company's business. Each is experienced in his or her job and has an intimate familiarity with the Company's operations and the extraordinarily difficult circumstances under which the Company is currently operating. These KERP Participants cannot be replaced without significant delay, cost and disruption to the Company's business. None of the KERP

Participants could readily or easily be replaced by individuals from the Company's existing management team. The process to find appropriately qualified replacements would be lengthy, costly and disruptive. There would be additional costs associated with recruiting replacements, including executive search firm fees, above-market salaries, relocation expenses, and signing bonuses. There would also be a steep learning curve for any new employee taking the position of a KERP Participant. In addition, the loss of KERP Participants could create further stability concerns, potentially leading to departures of other employees.

### **Developments Since The Adoption of the KERP**

32. I am advised by Brian Baarda that, on January 13, 2012, copies of a summary of the KERP (a redacted copy of which is attached as Exhibit "A") and the Trust Agreement were provided to the financial and legal advisors for a representative group of certain holders senior secured notes and Class B senior secured notes due December 2016 with a face value of US\$390 million (the "2016 Notes") as part of their due diligence before entering into a restructuring and support agreement with the Company and other parties (the "RSA").

33. I am advised by Brian Baarda that the KERP summary document was disclosed to counsel for certain holders of senior unsecured notes due March 2014, some of whom also held 2016 Notes in late 2011.


34. The summary of the KERP, the Towers Watson Report and Schedule A of the Trust Agreement also included a list of KERP Participants and their general entitlements under the KERP. These documents have been redacted to ensure that the identities of the KERP Participants and their specific salary information is kept confidential.

35. It is neither the policy of the Company nor, as far as I am aware, companies generally, to make the salaries of its employees publicly known other than as required by applicable securities laws. It is not at all normal for a company's human resources policy to make the compensation of individual employees generally known. The KERP Participants expect that their individual KERP entitlements would be confidential. In

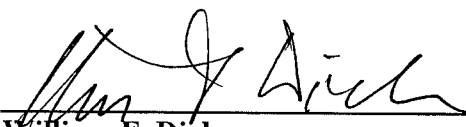
addition to these various material privacy concerns of the KERP Participants, the disclosure of such information would enable other employers to attempt to outbid the Company for employees and to recruit the KERP Participants away from the Company during this crucial period. Moreover, disclosure of the KERP Participants and the KERP details could create negative morale among the Company's employees.

36. At this point in time in the restructuring process, the disclosure of personal information would cause harm to the commercial interests of the Company and the privacy interests of the KERP Participants.

AFFIRMED BEFORE ME at Vancouver,  
British Columbia on February 10, 2012.

  
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A Commissioner for taking Affidavits for  
British Columbia

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William F. Dickson

**Anthony Purgas**  
*Barrister & Solicitor*  
Blake, Cassels & Graydon LLP  
Suite 2600, Three Bentall Centre  
595 Burrard St., P.O. Box 49314  
Vancouver, B.C. V7X 1L3  
**(604) 631-4280**

**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



November 15, 2011

7. **Benefit and Perquisite Continuance.** Cash payment equivalent to the value of the pension and other benefits to be provided over a time period consistent with the severance multiple.
8. **Employment Contracts and Existing Bonus Arrangements.** Severance amounts payable on a triggering event during the Protection Period under this plan are in lieu of notice or other severance arrangements under employment contracts or at common law regarding termination or constructive dismissal during the Protection Period. The key employee retention program is in addition to existing MLTIP and retention bonus arrangements for participants.