



This is the 5<sup>th</sup> affidavit of  
B. Baarda in this case and was  
made on March 1, 2012

No. S-120712  
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

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

AND

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

AND

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

AND

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

PETITIONERS

### **AFFIDAVIT**

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

1. I am the Vice President, Finance and Chief Financial Officer of Catalyst Paper Corporation ("CPC"), a Petitioner in this proceeding (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. All capitalized terms used and not defined below shall have the same meaning as that ascribed to them in my Affidavit #1, made January 31, 2012 (the “**First Affidavit**”).

**Financial Advisor Fee and Charge**

3. As described at paragraph 105 of my First Affidavit, in October 2011 the Company retained Perella Weinberg Partners LP (“**PWP**”) as financial advisor. The Company decided to obtain the advice and assistance of a financial advisor as the Company sought to address its financial situation and was considering a possible restructuring. Furthermore, the Company was aware that the 2014 Noteholders and the 2016 Noteholders, comprising together US\$640 million of the Company’s debt, would be relying on financial advisors.

4. PWP has experience advising on public and private mergers and acquisitions and court-supervised sales and restructurings. In a restructuring of this size, it is important for the Company to retain experienced advisors that can assist with the complex cross-border and structural elements of a potential restructuring.

5. On October 23, 2011, the Company and PWP entered into a letter agreement whereby PWP agreed to provide financial advisory, restructuring, financing, and sale services, as requested by the Company (the “**Engagement Letter**”).

6. The Engagement Letter provides the terms on which PWP will assist the Company with any sale or restructuring process, including, for the former, assisting in arranging and executing a sale, assisting in the due diligence process, and negotiating terms of the sale, and, for the latter, analyzing various restructuring scenarios, providing strategic advice with regard to restructuring and refinancing, and assisting the Company in negotiations with groups affected by any restructuring.

7. Attached as **Exhibit "A"** is a redacted copy of the Engagement Letter. The Engagement Letter includes confidential information in respect of the Transaction Fee. The Company has at all times understood that it was to keep the specific business terms of the Engagement Letter confidential, and has done so.

8. Since the date of the Initial Order, PWP has worked with the Company and the Monitor, and worked with the Company in developing a revised restructuring plan under the CCAA. PWP has engaged in due diligence with the Company in order to understand its operations and position itself to advise the Company on potential restructuring alternatives. It has worked with the Company to prepare and present information to creditors and their advisors to evaluate alternatives available to the Company. Among other things, PWP has advised the Company on a broad range of strategic alternatives, provided financial advice related to such alternatives, and participated with the Company in restructuring negotiations.

9. PWP has undertaken work on behalf of the Company in its financial restructuring to date. To the extent required, PWP is prepared to work with the Company on a sales process. PWP's role would include:

- (a) providing financial advice to the Company in structuring, evaluating and effecting a sale, including identifying potential acquirers, contacting and soliciting potential acquirers and assisting in arranging a sale (including a credit bid), including identifying potential buyers or parties in interest; and
- (b) assisting in the due diligence process and negotiations around the terms of any proposed sale.

10. The Engagement Letter provides that if the Company commences proceedings under the CCAA, the Company shall seek an order authorizing PWP's employment pursuant to the terms of the Engagement Letter.

11. Pursuant to the Engagement Letter, the Company agreed to pay PWP compensation through two separate fees:

- (a) a monthly financial advisory fee (the "**Monthly Fee**"); and

- (b) a transaction fee payable upon the consummation of a Restructuring or a Sale (as those terms are defined by the Engagement Letter) (the "**Transaction Fee**").

The Company also agreed to reimburse PWP for certain expenses incurred by PWP in the course of providing services to the Company.

12. While the Amended and Restated Initial Order permits the Company to pay the Monthly Fee and other expenses to PWP, it does not provide PWP with assurance regarding the payment of the Transaction Fee. It is my understanding that PWP does not want to continue to perform its sale and restructuring mandate pursuant to the Engagement Letter without adequate assurance that the Transaction Fee, as agreed to with the Company, will be paid.

13. The Company seeks the approval and authorization of the terms of the Engagement Letter and, in particular, the fee structure and the Transaction Fee and expense reimbursement provisions contained therein.

14. The Company proposes that PWP shall be entitled to a charge on the Notes First Lien Collateral as security for the fees and expenses of PWP, including any Transaction Fee payable under the Engagement Letter.

AFFIRMED BEFORE ME at Richmond,  
British Columbia on March 1, 2012.

A Commissioner for taking Affidavits for  
British Columbia

DAVID L. ADDERLEY  
Barrister & Solicitor  
2nd Floor, 3600 Lysander Lane  
Richmond, B.C. V7B 1C3

  
\_\_\_\_\_  
Brian Baarda

**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

This is ~~Exhibit "A"~~ referred to in the Affidavit #5  
of Brian Baarda made before me at Richmond,  
British Columbia this 1<sup>st</sup> day of March 2012.

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A Commissioner for the taking Affidavits  
for British Columbia

**PERELLA  
WEINBERG  
PARTNERS**

PERELLA WEINBERG PARTNERS  
767 FIFTH AVENUE  
NEW YORK, NY 10153  
PHONE: 212-287-3200  
FAX: 212-287-3201

October 23, 2011

PERSONAL AND CONFIDENTIAL

Brian Baarda  
Vice President & CFO  
Catalyst Paper Corporation  
2nd Floor, 3600 Lysander Lane  
Richmond British Columbia V7B 1C3  
Canada

Dear Mr. Baarda:

Perella Weinberg Partners LP (together with its corporate advisory affiliates, "Perella Weinberg Partners") is pleased to confirm the arrangements under which it is engaged to act as financial advisor to Catalyst Paper Corporation (the "Company"). For purposes hereof, the term "Company" includes affiliates and subsidiaries of the Company and any entity that the Company or its affiliates or subsidiaries may form or invest in and shall also include any successor to or assignee of all or a portion of the assets and/or businesses of the Company but does not include Powell River Energy Inc. The matters referred to in this letter constitute our "Engagement."

1. Services to be Rendered. The financial advisory services provided by Perella Weinberg Partners shall include the following:

*General Financial Advisory and Investment Banking Services.* To the extent requested by the Company, we shall:

- (a) Familiarize ourselves with the business, operations, properties, financial condition and prospects of the Company;
- (b) Review the Company's financial condition and outlook;
- (c) Assist in the development of financial data and presentations to the Company's Board of Directors, various creditors, and other parties;
- (d) Analyze the Company's financial liquidity and evaluate alternatives to improve such liquidity;

(e) Evaluate the Company's debt capacity and alternative capital structures;

(f) Participate in negotiations among the Company and its creditors, suppliers, lessors and other interested parties with respect to any of the transactions contemplated by this Agreement;

(g) Advise the Company and negotiate with lenders with respect to potential waivers or amendments of various credit facilities; and

(h) Provide such other advisory services as are customarily provided in connection with the analysis and negotiation of any of the transactions contemplated by this Agreement, as requested and mutually agreed.

*Restructuring Services.* To the extent requested by the Company, we shall:

(a) Analyze various Restructuring (as defined below) scenarios and the potential impact of these scenarios on the value of the Company and the recoveries of those stakeholders impacted by the Restructuring;

(b) Provide strategic advice with regard to restructuring or refinancing the Company's obligations;

(c) Provide financial advice and assistance to the Company in developing a Restructuring;

(d) In connection therewith, provide financial advice and assistance to the Company in structuring any new securities to be issued under a Restructuring; and

(e) Assist the Company and/or participate in negotiations with entities or groups affected by the Restructuring.

For purposes of this Agreement, the term "Restructuring" means any recapitalization, modification or restructuring of the Company's equity and/or debt securities and/or other indebtedness, obligations or liabilities (including partnership interests, lease obligations, trade credit facilities and/or contract or tort obligations), including pursuant to any repurchase, exchange, conversion, cancellation, forgiveness, retirement, plan, solicitation of consents, waivers, acceptances, authorizations and/or a modification or amendment to the terms, conditions or covenants thereof.

*Financing Services.* To the extent requested by the Company, we shall:

(a) Provide financial advice to the Company in structuring and effecting a Financing (as defined below), identify potential investors (as



defined below) and, at the Company's request, contact and solicit such Investors; and

(b) Assist in the arranging of a Financing, including identifying potential sources of capital, assisting in the due diligence process, and negotiating the terms of any proposed Financing, as requested.

For purposes of this Agreement, the term "Financing" shall mean a private issuance, sale or placement of the equity, equity-linked or debt securities, instruments or obligations of the Company with one or more lenders and/or investors, or any loan or other financing, or a rights offering (each such lender or investor, an "Investor") in each case closing reasonably contemporaneously with the closing of a Restructuring.

It is understood that nothing contained herein shall constitute an express or implied commitment by us to act in any capacity or to underwrite, place or purchase any financing or securities, which commitment shall only be set forth in a separate underwriting, placement agency or other appropriate agreement relating to the Financing.

*Sale Services.* To the extent requested by the Company, we shall:

(a) Provide financial advice to the Company in structuring, evaluating and effecting a Sale (as defined below), identify potential acquirers and, at the Company's request, contact and solicit potential acquirers; and

(b) Assist in the arranging and executing a Sale, including identifying potential buyers or parties in interest, assisting in the due diligence process, and negotiating the terms of any proposed Sale, as requested.

For purposes of this Agreement, the term "Sale" shall mean the disposition in one or a series of related transactions (i) of all or a significant portion of the equity securities of the Company by the security holders of the Company or (ii) of all or a significant portion of the assets or businesses of the Company or its subsidiaries, in either case, including through a sale or exchange of capital stock, options or assets, a lease of assets with or without a purchase option, a merger, consolidation or other business combination, a tender offer, the formation of a joint venture, partnership or similar entity, or any similar transaction (other than a Restructuring) provided that a Sale shall not include: (A) any acquisition or disposition of assets of the Company entered in the ordinary course including without limitation sales of land or assets that are both surplus and non-operating to the business of the Company, (B) any disposition of assets in connection with the Company's Elk Falls facility or Paper Recycling Division or exchange of assets, minority investment, partnership, joint venture or other collaborative venture involving the assets of the Company's Elk Falls facility or Paper Recycling Division, and (C) any acquisition of assets, exchange of assets, minority investment, partnership, joint venture or other collaborative venture transaction involving the Howe

Sound pulp and paper facility; (D) any acquisition or disposition of assets, exchange of assets, minority investment, partnership, joint venture or other collaborative venture involving the Company's Snowflake facility or Apache Railway Company in Arizona; (E) any disposition of the Company's real estate assets in the State of Washington.

*Generally.* We shall have no responsibility for designing or implementing any initiatives to improve the Company's operations, profitability, cash management or liquidity or, except as expressly provided in this Agreement to the contrary, to provide any fairness, valuation or solvency opinions or to make any independent evaluation or appraisal of any assets or liabilities of the Company or any other party. We make no representations or warranties about the Company's ability to (i) successfully improve its operations, (ii) maintain or secure sufficient liquidity to operate its business, or (iii) successfully complete a Restructuring, Financing or Sale. We are retained under this Agreement solely to provide advice and services regarding the transactions contemplated by this Agreement. Our Engagement does not encompass providing "crises management."

In addition, if (i) requested by the Company's board of directors and (ii) appropriate for the applicable transaction for which it is requested as determined in the sole discretion of Perella Weinberg Partners, we will undertake a study (a "Study") to consider the fairness of the consideration to be received in a proposed transaction contemplated hereunder, from a financial point of view, to the Company's shareholders for the purpose of rendering an opinion to the Company's board of directors (the "Opinion"). In addition, if (i) requested by the Company's board of directors and (ii) required by the Director under the Canadian Business Corporations Act, we will undertake a study (a "Study") to consider the fairness of the consideration to be received in a proposed transaction contemplated hereunder for the purpose of rendering an opinion to the Company's board of directors in the form described in paragraph 4.04 of Industry Canada's Policy statement 15.1 – Policy of the Director Concerning Arrangements under Section 192 of the CBCA (the "CBCA Opinion").

The advisory services and compensation arrangements set forth in this Agreement do not encompass other investment banking services or transactions that may be undertaken by us at the request of the Company, or any other specific services not set forth in this Agreement. The terms and conditions of such investment banking services, including compensation and arrangements, would be set forth in a separate written agreement between us and the Company.

2. Compensation. As compensation for our services, the Company agrees to pay us in cash, by wire transfer of immediately available funds when due, the following fees (individually or collectively, "Fees"):

(a) a monthly financial advisory fee of \$150,000 (the "Monthly Fee"), pro rated for any partial month, commencing on the Engagement Date due and payable on the

first day of each month during the engagement, with the first Monthly Fee due upon the execution of this Agreement; plus

(b) a Transaction Fee in the amount of [REDACTED], payable promptly upon consummation of a Restructuring or Sale; provided, however, that the amount due under this Subsection (b) shall be reduced by an amount (if any) equal to 75% of each Monthly Fee paid to us by the Company following the sixth full month of our Engagement.

Notwithstanding the foregoing in this Section 2, in the event the Company consummates a Restructuring solely with its senior subordinated noteholders on terms substantially similar to those set forth in the term sheet dated September 29, 2011 attached hereto as Schedule 1 (an "Alternate Transaction"), in lieu of the payment contemplated in Section 2(b), the Company shall pay (i) a Transaction Fee in a discretionary amount to be determined by the Company, provided that such amount shall be no less than [REDACTED], payable promptly upon consummation of such a transaction and (ii) if we are requested to provide an Opinion and/or a CBCA Opinion in connection with an Alternate Transaction, and we elect to undertake a Study in furtherance thereof, [REDACTED] payable promptly upon delivery by us of the Opinion or a CBCA Opinion or the determination by us that we are not able to deliver an Opinion or a CBCA Opinion containing the conclusion sought by the Company in the context of the applicable transaction.

3. Expenses. In addition to our fees for professional services, the Company agrees that it will promptly reimburse us for all of our expenses ("Expenses"), (including, but not limited to, reasonable professional and legal fees, charges and disbursements of our legal counsel, any sales, use or similar taxes (including additions to such taxes, if any) arising in connection with any matter referred to in this letter, travel and hotel expenses, printing costs, data processing and communication charges, research expenses and courier and postage services). The Company's obligation to reimburse expenses incurred by us in connection with the Engagement will survive the completion or termination of the Engagement.

4. Indemnification. The Company acknowledges that we have been retained hereunder solely as an independent contractor and that nothing in this Agreement or the nature of our services shall be deemed to create a fiduciary or agency relationship between us and the Company or its equity holder(s), employees or creditors. In order to induce us to accept the Engagement, the Company agrees to the indemnity, exculpation provisions and other matters set forth in Annex A, which forms a part of and is incorporated by reference into the Agreement. Prior to entering into any agreement or arrangement with respect to, or effecting, any proposed sale, exchange, dividend or other distribution or liquidation of all or a significant portion of its assets in one or a series of transactions or any significant recapitalization or reclassification of its outstanding securities that does not directly or indirectly provide for the assumption of the obligations of the Company set forth in Annex A, the Company will notify us in writing thereof (if not previously so notified) and, if requested by us, shall arrange in connection therewith

alternative means of providing for the obligations of the Company set forth in Annex A, including the assumption of such obligations by another party, insurance, surety bonds or the creation of an escrow, in each case, in an amount and upon terms and conditions reasonably satisfactory to us and the Company. The terms and provisions of this Section 4 and of Annex A shall survive the completion or termination of the Engagement.

5. Bankruptcy Court Approval. In the event that the Company determines to commence any proceedings under Chapter 11 of the Bankruptcy Code, the Companies' Creditors Arrangement Act (Canada) ("CCAA"), the Canada Business Corporations Act (the "CBCA"), the Bankruptcy and Insolvency Act (Canada) ("BIA") or any applicable similar legislation or statute in order to pursue a Restructuring, Financing and/or Sale, the Company shall use its reasonable efforts to seek an order authorizing our employment pursuant to the terms of this Agreement, as a professional person pursuant to, and subject to the standard of review of, Section 328(a) of title 11 of the United States Code (the "Bankruptcy Code") (or applicable similar statute or rule), the applicable Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and applicable local rules and orders and not subject to any other standard of review under Section 330 of the Bankruptcy Code (or applicable similar statute or rule). In so agreeing to seek our retention under Section 328(a) of the Bankruptcy Code (or applicable similar statute or rule), the Company acknowledges that it believes that our general restructuring experience and expertise, its knowledge of the capital markets and its merger and acquisition capabilities will inure to the benefit of the Company in pursuing any Restructuring, Financing and/or Sale, that the value to the Company of our services derives in substantial part from that expertise and experience and that, accordingly, the structure and amount of the contingent Fees are reasonable regardless of the number of hours to be expended by our professionals in the performance of the services to be provided hereunder. The Company shall submit our employment application as soon as practicable following the Company's commencement of any proceedings described hereunder, or the entry of an order for relief in any involuntary case filed against the Company, and use its reasonable efforts to cause such application to be considered on the most expedited basis. The employment application and the proposed order authorizing our employment shall be provided to us as much in advance of any Chapter 11 filing (or applicable proceeding) as is practicable, and must be acceptable to us in our sole discretion. Following entry of the order authorizing our employment, the Company shall pay all Fees and Expenses due pursuant to this Agreement, as approved by the court (or similar applicable governing body) having jurisdiction of the bankruptcy case involving the Company (the "Bankruptcy Court"), as promptly as possible in accordance with the terms of this Agreement and the order of such Bankruptcy Court, the Bankruptcy Code (or similar applicable statute or rule), the Bankruptcy Rules (or similar applicable rules) and applicable local rules and orders, and will work with us to promptly file any and all necessary applications regarding such fees and expenses with the Bankruptcy Court. We shall have no obligation to provide services under this Agreement in the event that the Company becomes a debtor under the Bankruptcy Code (or similar applicable law or statute) unless our retention under this Agreement is approved under Section 328(a) of the Bankruptcy Code by final order of the Bankruptcy Court (or similar applicable law or

statute) which is acceptable to us and which approves this Agreement in all material respects. If the order authorizing our employment is not obtained, or is later reversed, modified or set aside for any reason, we may terminate this Agreement, and the Company shall promptly reimburse us for all Fees and Expenses due hereunder, including any Fees due or to become due under the Tail Period (as defined below). Prior to commencing proceedings as described hereunder in this Section 5, the Company shall pay all amounts then due and payable to us in cash. The terms of this Section are solely for our benefit, and may be waived, in whole or in part, only by us.

6. Expertise. The Company acknowledges and agrees that Perella Weinberg Partners' restructuring expertise as well as its capital markets knowledge, financing skills and mergers and acquisitions capabilities, some or all of which may be required by the Company during the term of our Engagement hereunder, were important factors in determining the amount of the various fees set forth herein, and that the ultimate benefit to the Company of our services hereunder could not be measured merely by reference to the number of hours to be expended by our professionals in the performance of such services. The Company also acknowledges and agrees that the various fees set forth herein have been agreed upon by the parties in anticipation that a substantial commitment of professional time and effort will be required of us and our professionals hereunder over the life of the Engagement, and in light of the fact that such commitment may foreclose other opportunities for us and that the actual time and commitment required of us and our professionals to perform their services hereunder may vary substantially from week to week or month to month, creating "peak load" issues for the firm. In addition, given the numerous issues which we may be required to address in the performance of our services hereunder, our commitment to the variable level of time and effort necessary to address all such issues as they arise, and the market prices for our services for engagements of this nature in an out-of-court context, the Company agrees that all of the fee arrangements specified herein are commercially reasonable.

7. Information; Cooperation. In connection with the Engagement, the Company will provide us with access to the Company's officers, directors, employees, accountants, legal advisors, and other representatives (collectively, "Representatives"), and will furnish us and cause its Representatives to furnish us with such information as we believe appropriate for the Engagement (all such information so furnished being the "Information"). The Company recognizes and confirms that we (i) will use and rely primarily on the Information and on information available from generally recognized public sources in performing its services without having independently verified the same and (ii) do not assume responsibility for the accuracy or completeness of the Information and such other information. It is understood and agreed that, in connection with rendering the Opinion (if applicable), we may rely, without independent verification, on all information provided to or otherwise reviewed by us and we will have no duty or responsibility to verify any such information. It is also understood that the Opinion may state we have not verified any such information. The information to be furnished by the Company and its Representatives, when delivered, will be true and correct in all material respects and will not contain any material misstatement of fact or omit to state any

material fact necessary to make the statements contained therein not misleading. The Company will promptly notify us if it learns of any material inaccuracy or misstatement in, or material omission from, any Information theretofore delivered to us.

The Company agrees to cooperate with us in the performance of its services under this Agreement and shall provide us with timely access to and use of personnel, facilities, equipment, data and information to the extent necessary to permit us to perform services under this Agreement. In order to coordinate effectively the Company's and our activities to effect a Restructuring, Financing and/or Sale, or other transaction, the Company will promptly inform us of any pending or future discussions, negotiations or inquiries regarding a possible Restructuring, Financing and/or Sale (including any such discussions, negotiations or inquiries that have occurred in the six-month period prior to the date of this Agreement).

8. Work Product. All documents, materials or information of any kind created by us in connection with this engagement, including, without limitation, any written reports, memoranda, analyses, work papers or status summaries, whether or not delivered to the Company, are work product (collectively, "Work Product"). All Work Product shall be owned and maintained by us. You agree not to use any Work Product except in connection with any transaction contemplated by this Agreement or otherwise within the scope of the Engagement, and not for any other purpose. Our Work Product may not be relied upon by any other person including, but not limited to, any security holder, or employee or creditor of the Company, and may not be used or relied upon for any other purpose. You may not publicly disclose, summarize, excerpt from or otherwise refer to any Work Product rendered by us, whether formal or informal, without our prior written consent.

9. Confidentiality. The Company may not publicly disclose, summarize, excerpt from or otherwise refer to any advice rendered by us including our Opinion, whether formal or informal, without our prior written consent. In addition, the Company may not refer to our name or the terms of our Engagement without our prior written consent. The Company's obligations under this section will survive the completion or termination of the Engagement.

We will not be providing the Company with, and the Company will not look to us for, tax, legal, accounting or other similar advice and we agree that nothing in this Agreement is intended to impose any conditions of confidentiality within the meaning of Section 6111 of the Internal Revenue Code of 1986, as amended, or US Treasury Regulation Section 1.6011-4. The Company may disclose to any and all persons, without limitation of any kind, the United States tax treatment (federal, state and local) and tax structure of any transaction and all materials of any kind relating to such tax treatment and tax structure.

10. Termination. Our services hereunder may be terminated upon 30 days written notice with or without cause by you or by us at any time and without liability or continuing obligation to you or to us. No termination of our Engagement or

this Agreement shall modify or affect (i) the Company's obligation to pay our Fees and to pay or reimburse Expenses through the effective date of termination under Sections 2 and 3 of this Agreement, respectively, and (ii) the Company's obligations under Sections 4, 5, 8, 9, 10, 12, 13, 14, 15, 16 and 17, all of which shall survive the termination of our Engagement; provided, however, that in the case of termination by you prior to a Restructuring, Financing and/or Sale being effected, we shall be entitled to be paid the full amount of our Fees if, within one year of such termination (the "Tail Period"), (x) any Restructuring, Financing and/or Sale is effected, or (y) the Company agrees in writing to a Restructuring, Financing and/or Sale which is subsequently effected, at any time. If a Restructuring, Financing and/or Sale is effected prior to the termination of our Engagement, there will be no Tail Period.

11. Other Perella Weinberg Partners Activities. Perella Weinberg Partners is a financial services firm engaged directly and through its affiliates in investment banking, financial advisory services, investment management, asset management and other advisory services and sponsors special purpose acquisition vehicles. The Company understands and acknowledges that in performing the Engagement we will not be under any duty to disclose to the Company, or use for the benefit of the Company, any confidential or non-public information obtained by us or our affiliates in the course of providing services to any other person or engaging in any other transaction (including as principal) or business activities.

12. Governing Law. All aspects of the relationship created by this Agreement (including Annex A) shall be governed by and construed in accordance with the laws of the State of New York, applicable to agreements made and to be performed entirely in such State. All actions and proceedings arising out of or relating to this Agreement shall be heard and determined exclusively in any New York state or federal court sitting in the Borough of Manhattan of the City of New York, to whose jurisdiction the Company hereby irrevocably submits. The Company hereby irrevocably waives any defense or objection to the New York forum designated above. Perella Weinberg Partners and the Company (on its own behalf and, to the extent permitted by law, on behalf of its equity holders) waives all right to trial by jury in any action, suit, proceeding or counterclaim (whether based upon contract, tort or otherwise) related to or arising out of the Engagement or the performance by us of the services contemplated by this Agreement.

13. Assignment; Severability. No party hereto may assign, transfer or delegate any of its rights or obligations without the prior written consent of the other parties, such consent not to be unreasonably withheld. In the event that any term or provision of this Agreement shall be held to be invalid, void or unenforceable by a court of competent jurisdiction (not subject to further appeal), then the remainder of this Agreement shall not be affected, and each such term and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

14. Public Announcements. The Company acknowledges that we may, at our option and expense and after public announcement of a Restructuring,

Financing and/or Sale, place announcements and advertisements or otherwise publicize such Restructuring, Financing and/or Sale and our role in it (which may include the reproduction of the Company's logo and a hyperlink to the Company's website) on our internet website and in such financial and other newspapers and journals as we may choose, stating that we acted as financial advisor to the Company in connection with the Restructuring, Financing and/or Sale.

15. Regulation Relating to Client Identification. Federal law and regulations require financial institutions to obtain, verify and record information that identifies each person with whom they do business prior to doing such business and to provide reasonable notice to such persons that the financial institution is verifying such person's identity. Accordingly, the Company will provide us, as necessary and upon request, certain identifying information, including, but not limited to, a government-issued identification number (e.g., a U.S. taxpayer identification number) and certain other information or documents necessary to verify the Company's identity, such as certified corporate documentation, partnership agreement or trust instrument.

16. Co-Advisors. It is understood that no Indemnified Person, as defined herein in Annex A, shall have any responsibility or liability to the Company or its affiliates or any other party in connection with the advice, opinions or actions of any other advisors engaged by the Company, and further, no Indemnified Person or any such other advisor shall have any responsibility or liability to each other in connection with the advice or opinions rendered by such party in connection with the Engagement.

17. Limitation on Actions. No action, regardless of form, arising out of or relating to the Engagement, may be brought by you more than one year after the cause of action has accrued.

18. FINRA Rule 5150. In order to permit compliance with FINRA Rule 5150, it is understood and agreed that any Opinion rendered by us may disclose (i) our role with respect to the applicable transaction, (ii) the compensation therefor and any other payment or compensation that we will receive which is contingent upon the successful completion of the applicable transaction, for rendering the fairness opinion and/or for serving as an advisor and (iii) any material relationship that existed during the two years preceding the date of such Opinion or that, as of such date, is mutually understood to be contemplated and any compensation received or to be received as a result of the relationship between us and the Company or any party involved in the applicable transaction. In addition, prior to the rendering of an Opinion which is to be provided or described to the Company's public shareholders, the Company will (and, will seek to cause any other party to the applicable transaction to) cooperate with us to identify and describe all material relationships between the Company or any such party and Perella Weinberg Partners, that existed during the two years preceding such Opinion or that is mutually understood to be contemplated and any compensation received or to be received as a result of the relationship between us and the Company or any other such party. It is understood and agreed that any Opinion will expressly exclude consideration



of any compensation or compensation arrangements arising from the applicable transaction which benefit any officer, director or employee of the Company, or any class of such persons.

19. Entire Agreement; Amendments. This Agreement, including Annex A, constitutes the entire agreement between us and the Company with respect to the Engagement and supersedes all other oral and written representations, understandings or agreements relating to this Engagement. No alteration, waiver, amendment, change or supplement hereto shall be binding or effective unless the same is set forth in writing signed by a duly authorized representative of each party.

You acknowledge the Company's agreement with the terms stated herein, and acknowledge that you have reviewed and agreed to be bound by the terms of this Agreement, and that you have all requisite power and authority to enter into this Agreement on behalf of the Company, and have been duly and validly authorized to do so, as evidenced by your signature below. Facsimile signatures shall be deemed original, binding signatures.

We are delighted to accept the Engagement and look forward to working with you on this assignment. Please confirm your agreement to the foregoing by signing and returning to us the enclosed duplicate of this letter.

Very truly yours,

PERELLA WEINBERG PARTNERS LP

By: 

Name: Derron Slonecker  
Title: Partner

Agreed and accepted as of  
the date set forth above:

CATALYST PAPER CORPORATION

By: 

Name: Brian Baarda  
Title: Vice President & CFO

Schedule 1

Private and Confidential  
For Discussion Purposes

September 29, 2011

**Term Sheet Regarding Potential Recapitalization Transaction**

This term sheet describes the principal terms on which Catalyst Paper Corporation ("Catalyst") would agree to sell US\$90.0 million in aggregate principal amount of senior 11% secured notes due December 15, 2016 (the "New Senior Secured Notes") to certain investors (the "Private Placement Investors") through a private placement (the "Private Placement") and the principal terms of a recapitalization transaction with respect to an exchange of all 7 3/8% senior notes due March 1, 2014 (the "2014 Notes") for common shares in the capital of Catalyst (the "Recapitalization Transaction").

The transactions contemplated in this term sheet have not been agreed to and are not binding on any party and do not contain all of the terms, conditions, and other provisions of the transactions contemplated by this term sheet. The transactions are subject to the execution of definitive documents acceptable to Catalyst, in its discretion, and each of the Initial Consenting Noteholders (as defined below), in its individual discretion. All terms in this document are subject to legal, tax, financial and business due diligence.

This term sheet is proffered in the nature of a settlement proposal in furtherance of settlement discussions and is entitled to protection from any use or disclosure to any party or person and is subject to all applicable privileges including, without limitation, common interest privileges. This term sheet, and the transactions described herein, are strictly confidential and cannot be shared, disclosed, or discussed with any party other than Catalyst, its legal and financial advisors, and its Board of Directors, without the written consent of the Initial Consenting Noteholders. This term sheet does not constitute an offer of securities and is not an offer or solicitation for any filing per Section 192 of the *Canada Business Corporations Act* ("CBCA").

This term sheet in respect of the Recapitalization Transaction is being provided by certain holders of 2014 Notes of Catalyst, solely in such capacity, and is not an offer or commitment from, or an agreement to act by, any holder of common shares of Catalyst or other securities of Catalyst.

**I. Private Placement**

***Issuance of Notes***

Catalyst will issue US\$90.0 million in aggregate principal amount of New Senior Secured Notes to the Private Placement Investors pursuant to the indenture (the "2016 Indenture") governing the 11% senior secured notes due December 15, 2016 (the "2016 Notes").

Catalyst shall consolidate all indentures relating to the 2016 Notes into one amended and restated indenture governing all of the 2016 Notes.

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<i>Price</i>	The offering price of the New Senior Secured Notes will be 60.0% of the principal amount of the New Senior Secured Notes. The net proceeds from the issuance of the New Senior Secured Notes will be US\$54.0 million.
<i>Note Purchase Agreement</i>	The Private Placement Investors will purchase the New Senior Secured Notes through a Note Purchase Agreement, which shall contain standard terms and conditions for a transaction of this nature and will be in form and content acceptable to the Private Placement Investors.
<i>Terms of New Senior Secured Notes</i>	The New Senior Secured Notes will comprise part of, and be on the same terms as, the 2016 A Notes. Holders of the 2016 B Notes shall be offered to exchange their 2016 B Notes on a dollar for dollar basis for 2016 A Notes.
<i>Conditions</i>	<p>The Private Placement will be subject to customary conditions for a private placement of this nature, including the following:</p> <ul style="list-style-type: none"><li>• The Recapitalization Transaction must be completed, although the Private Placement Investors reserve the right to waive this condition, in their sole discretion, subject to the consent of Catalyst.</li><li>• New Senior Secured Notes and the indenture governing the New Senior Secured Notes to be exempt from withholding tax and subject to gross-up for withholding tax.</li><li>• No defaults or events of default under any material agreements.</li><li>• No material adverse change, including, without limitation, no material change in the trading price or trading volume of any debt or securities of Catalyst.</li><li>• The Private Placement Investors shall be satisfied with the terms of all documents and aspects relating to the Private Placement.</li><li>• Catalyst to reimburse all costs, expenses and disbursements incurred by the Private Placement Investors and their advisors.</li></ul>
<i>Private Placement Closing Date</i>	Within 30-60 days of the execution of the Note Purchase Agreement and all related documents, or on such other date as agreed upon by the Private Placement Investors and Catalyst.
<i>Use of Proceeds</i>	General corporate purposes.

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## **II. Recapitalization Transaction**

<i>Plan of Arrangement</i>	The Recapitalization Transaction will be effected in accordance with a plan of arrangement to be filed under Section 192 of the CBCA (the "Plan of Arrangement").
<i>Plan Effective Date</i>	The date upon which the Plan of Arrangement becomes effective shall be on or before ●.
<i>Consideration for the 2014 Notes</i>	All holders of 2014 Notes (the "2014 Noteholders") will receive, on the Recapitalization Implementation Date (as defined below), their pro rata share (based on the face value of the 2014 Notes) of 9X.0% of the pro forma outstanding common equity of Catalyst, subject to dilution from a new management incentive plan and a director compensation plan.
<i>Early Consent Consideration</i>	On the Recapitalization Implementation Date, Catalyst will pay a cash amount to each 2014 Noteholder that executes a support agreement (the "Support Agreement") or a joinder thereto on or before ●, 2011 (the "Early Consent Date") equal to 5.5% of the aggregate principal amount of 2014 Notes held by such 2014 Noteholder (the "Early Consent Consideration") as consideration in respect of its 2014 Notes.
<i>Treatment of Accrued Interest on the Notes</i>	Accrued and unpaid interest on the 2014 Notes up to the Recapitalization Implementation Date will be paid in cash on the Recapitalization Implementation Date.
<i>Noteholder Approval</i>	Two-thirds of the principal amount of the 2014 Notes held by holders who attend the meeting in person or by proxy to approve the Recapitalization Transaction.
<i>Treatment of Existing Equity</i>	Under the Plan of Arrangement, existing shareholders will retain ●% of the pro forma outstanding common equity of Catalyst, subject to dilution from a new management incentive plan and a director compensation plan.
<i>Fractional Shares</i>	No fractional common shares will be issued. Any fractional securities that would otherwise have been issued shall be rounded up to the nearest whole number.
<i>Existing Options and Warrants</i>	All existing options and warrants will be cancelled or otherwise dealt with to the satisfaction of the Initial Consenting Noteholders.
<i>Support Obligation</i>	Subject to agreement on the terms of a proposed Recapitalization Transaction by each of the Initial Consenting Noteholders, in its discretion, 2014 Noteholders holding approximately 45% of the principal amount of 2014 Notes will execute the Support

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Agreement on or before ■, 2011 (the "Initial Consenting Noteholders"). All other 2014 Noteholders will have an opportunity to execute the Support Agreement by executing a joinder thereto, and those that execute the Support Agreement before the Early Consent Date (including the Initial Consenting Noteholders) are entitled to the Early Consent Consideration. Pursuant to the Support Agreement, the Initial Consenting Noteholders and all other 2014 Noteholders that execute the Support Agreement (collectively, the "Consenting Noteholders") will agree:

- To vote in favour of the Plan of Arrangement, solely in their capacity as holders of the 2014 Notes, and to not take any action, or omit to take any action, to frustrate or hinder the completion of the Recapitalization Transaction.
- If applicable, to vote in favour of an Alternative Transaction (as defined below).
- Not to dispose of any of their 2014 Notes except to any other fund managed by any of the Consenting Noteholders or any other person provided such person agrees to be bound by the terms of this term sheet and the Support Agreement.
- Not to solicit any alternative transaction to the Plan of Arrangement.
- As holders of 2014 Notes and as holders of any 2016 Notes, waive any defaults with respect to the implementation of the CBCA transaction and any matters related to the sale, disposition or liquidation of any non-core operations or assets for a period of 12 months, subject to any such net proceeds from any such secured disposition being paid pro-rata to all holders of 2016 Notes.

*Transaction Structure  
Consideration*

Additional consideration in the amount of an amount equal to 2.1% of the principal amount of the 2014 Notes shall be payable to the Initial Consenting Noteholders in respect of matters relating to the development and structuring of the Recapitalization Transaction and the 2014 Notes.

*Support Conditions*

The Consenting Noteholders will not be required to perform their obligations under the Support Agreement upon the occurrence of customary events for a transaction of this nature, including the following:

- The required noteholder, Court, stock exchange and shareholder approvals are not obtained on terms satisfactory to the Initial Consenting Noteholders.
- Catalyst has failed to perform its material obligations under the Support Agreement.
- A material adverse change has occurred.
- The Recapitalization Transaction is not completed on or before ●, unless Catalyst has by then initiated an Alternative Transaction, in which case the Alternative Transaction shall be completed on or before ● (the closing date of either the Recapitalization Transaction or the Alternative Transaction shall be defined as the "Recapitalization Implementation Date").

*Alternative Transaction*

If the Plan of Arrangement is not completed by ●, Catalyst shall, upon obtaining the consent of the Initial Consenting Noteholders, pursue in good faith an alternative transaction to implement the Recapitalization Transaction, including, without limitation, pursuant to a plan of compromise or arrangement under the *Companies Creditors' Arrangement Act* (the "Alternative Transaction"). In the event of an Alternative Transaction, the 2014 Noteholders will receive the consideration they would have received if the Recapitalization Transaction was completed under a CBCA plan of arrangement (including, without limitation, the Early Consent Consideration if entitled thereto), plus any equity that would have been provided to shareholders under a CBCA plan of arrangement.

*Catalyst Non-Solicit*

Catalyst shall pursue and support the Recapitalization Transaction in good faith. Catalyst shall not solicit, initiate, knowingly facilitate or knowingly encourage (including by way of furnishing information or entering into any agreement) any inquiries or proposals regarding any transaction that is an alternative to the Recapitalization Transaction (an "Other Transaction") subject to the Board retaining the right to support an Other Transaction if such Other Transaction pays all of the 2014 Notes in full in cash on closing.

*Rights Offering*

To the extent that there is support by shareholders of Catalyst for a rights offering in respect of common shares in the capital of Catalyst, each Initial Consenting Noteholder will agree to support a rights offering subject to the terms being acceptable to Catalyst, each such Initial Consenting Noteholder and the shareholders.

*Conditions*

The Recapitalization Transaction will be subject to customary conditions for a restructuring transaction of this nature, including the following:

- Catalyst Board approval.
- Approval of existing shareholders (by a simple majority) as required to issue the shares pursuant to the exchange or other relief from the TSX or of Court Order, acceptable to the Consenting Noteholders.
- Approval for the listing of the shares on the TSX.
- The shares must be freely tradeable (in Canada and in the U.S.) upon their issuance in accordance with the Recapitalization Transaction.
- Court documents related to the transactions must be acceptable to the Initial Consenting Noteholders, and Catalyst shall provide draft copies of all such materials in advance to counsel to the Initial Consenting Noteholders, Goodmans LLP ("Goodmans").
- The CBCA Court Orders in respect of the Recapitalization Transaction providing that no person, can take any actions, steps against Catalyst or its assets and property, and no person, can terminate, amend or claim an accelerated payment or forfeiture of the term of any agreement with Catalyst, by reason that any proceeding was commenced under the CBCA or any other related default.
- The Initial Consenting Noteholders shall be satisfied with the terms of all documents and aspects relating to the Recapitalization Transaction.
- The Initial Consenting Noteholders shall be satisfied with the use of proceeds and payments relating to all aspects of the Recapitalization Transaction, including, without limitation, any consent fees, transaction fees or third party fees payable to any party in respect of the Recapitalization Transaction.
- The Initial Consenting Noteholders shall be satisfied with all pension obligations, benefits and other ongoing employment obligations of Catalyst.
- The minimum net liquidity on the Recapitalization Implementation Date shall be an amount agreed to by Catalyst and the Initial Consenting Noteholders.

- The Private Placement shall be completed.
- Any identified Catalyst leases which are no longer needed for the operations of Catalyst shall be terminated by the parties or otherwise dealt with by Catalyst as part of the Court proceedings, all subject to the consent of the Consenting Noteholders.
- No material adverse change, including, without limitation, no material change in the trading price or trading volume of any debt or securities of Catalyst.
- No defaults or events of default under any material agreements, subject to any required consents or Court Orders waiving any such defaults or events of default.
- Catalyst to reimburse all costs, expenses and disbursements incurred by the Initial Consenting Noteholders and their advisors.

***Representations and Warranties***

Customary representations and warranties for a restructuring transaction of this nature.

***Share Consolidation***

Catalyst will propose a common share consolidation on a • basis at its general meeting of shareholders at a time to be agreed upon by Catalyst and the Initial Consenting Noteholders.

***Catalyst Liabilities, Obligations and Litigation***

Catalyst is not aware of any material unsecured liabilities, obligations, litigation or potential litigation, except for unsecured trade obligations in the ordinary course and except as publicly disclosed in any of its securities filings.

***Treatment of Trade Debt***

Catalyst's trade debt shall be unaffected by the Recapitalization Transaction and shall continue to be paid or satisfied in the ordinary course by Catalyst.

***Treatment of Employee Obligations***

Catalyst's obligations to its employees shall remain unaffected by the Recapitalization Transaction.

***Change of Control***

There shall be no change of control payments paid by Catalyst under any employment agreement, incentive plan or any other material agreements as a result of the Recapitalization Transaction.

***Transfer of Property***

Catalyst shall not transfer, lease, license or otherwise dispose of all or any part of its property, assets or undertaking outside the ordinary course.

***New Management Incentive Plan***

New management incentive plan and director compensation plan to be agreed upon by Catalyst and the Initial Consenting Noteholders.

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*Other*

The composition of the Board of Directors of Catalyst following the Recapitalization Implementation Date shall be confirmed pursuant to the Recapitalization Transaction and an Order approving the arrangement under the CBCA, or otherwise, and such Order or other arrangements in respect of the composition of the post-emergence Board of Directors of Catalyst shall be satisfactory to Goodmans.

Catalyst shall work cooperatively with Goodmans to prepare and finalize all documentation utilized to effect the Recapitalization Transaction.

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### Annex A

The Company agrees to indemnify and hold harmless Perella Weinberg Partners and its affiliates and its and their respective officers, directors, partners, members, employees, consultants and agents and each other person, if any, controlling Perella Weinberg Partners or any of its affiliates (Perella Weinberg Partners and each such other person being an "Indemnified Person") from and against any losses, claims, damages or liabilities related to, or arising out of or in connection with our engagement or any matter referred to in the Agreement to which this indemnity is annexed (the "Engagement"), and will reimburse each Indemnified Person for all expenses (including fees, charges and disbursements of counsel) as they are incurred in connection with investigating, preparing, pursuing or defending any action, claim, suit, investigation or proceeding related to, arising out of or in connection with the Engagement, whether or not pending or threatened and whether or not any Indemnified Person is a party; provided, however, that the Company will not be responsible for any losses, claims, damages or liabilities (or expenses relating thereto) that are finally judicially determined to have resulted primarily from the gross negligence or willful misconduct of any Indemnified Person. The Company also agrees that no Indemnified Person shall have any liability (whether direct or indirect, in contract or tort or otherwise) to the Company for or in connection with the Engagement, except for any such liability for losses, claims, damages or liabilities incurred by the Company that are finally judicially determined to have resulted primarily from the gross negligence or willful misconduct of such Indemnified Person.

The Company, or any of its affiliates, will not, without Perella Weinberg Partners' prior written consent, settle, compromise, consent to the entry of any judgment in or otherwise seek to terminate any action, claim, suit, investigation or proceeding in respect of which indemnification, reimbursement or contribution may be sought hereunder (whether or not any Indemnified Person is a party thereto) unless such settlement, compromise, consent or termination includes a full release of each Indemnified Person from any and all liabilities arising out of such action, claim, suit, investigation or proceeding. No Indemnified Person seeking indemnification, reimbursement or contribution under this Annex A will, without the Company's prior written consent, settle, compromise, consent to the entry of any judgment in or otherwise seek to terminate any action, claim, suit, investigation or proceeding referred to in the preceding paragraph.

If the indemnification provided for in the first paragraph of this Annex A is judicially determined to be unavailable (other than in accordance with the terms hereof) to an Indemnified Person in respect of any losses, claims, damages or liabilities referred to herein, then, in lieu of indemnifying such Indemnified Person hereunder, the Company shall contribute to the amount paid or payable by such Indemnified Person as a result of such losses, claims, damages or liabilities (and expenses relating thereto) (a) in such proportion as is appropriate to reflect the relative benefits to Perella Weinberg Partners, on the one hand, and the Company, on the other hand, of the Engagement or (b) if the allocation provided by clause (a) above is not available, in such proportion as is appropriate to reflect not only the relative benefits referred to in such clause (a) but also the relative fault of each of Perella Weinberg Partners and the Company, as well as any other relevant equitable considerations; provided, however, in no event shall Perella Weinberg Partners' aggregate contribution to the amount paid or payable exceed the aggregate amount of fees actually received by Perella Weinberg Partners under this letter. For the purposes of this Annex A, the relative benefits to Perella Weinberg Partners and the Company of the Engagement shall be deemed to be in the same proportion as (i) the fees paid or to be paid to Perella Weinberg Partners under this letter, bears to (ii) the total value paid or contemplated to be paid to or received or contemplated to be received by the Company or its stockholders, as the case may be, in the transaction or transactions that are the subject of the Engagement, whether or not any such transaction is consummated.