



This is the 6th affidavit of
B. Baarda in this case and was
made on March 15, 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 2nd 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" or "Catalyst"), 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**”).

3. This Affidavit is made in support of an application by the Company for the following relief:

- (a) an Order establishing a process for the determination of the claims of the Company’s creditors (the “**Claims Procedure Order**”);
- (b) an Order (i) accepting the filing of the Company’s plan of compromise and arrangement (the “**Plan**”), (ii) authorizing the Company to call meetings of those creditors affected by the Plan (the “**Meetings**”), and (iii) establishing procedures for the conduct of the Meetings (collectively, the “**Meetings Order**”); and
- (c) an Order approving a sale and investor solicitation process (the “**SISP**”) to take effect if the Plan is not approved at the Meetings, dependent on certain conditions (the “**SISP Order**”).

Background and the Commencement of the CCAA Proceedings

4. Since 2006, Catalyst’s financial performance has steadily declined, largely as a result of reduced global demand for paper products. While the Company has made efforts to reduce its expenses to react to changing demand, there have been several other factors that have produced significant challenges to the business that the Company has been unable to control. I addressed the numerous issues facing the Company in detail in the First Affidavit.

5. On January 17, 2012, the Company filed a Petition with the Court in respect of a proposed CBCA arrangement (the “**CBCA Court Filing**”). Prior to the CBCA Court Filing, the negotiations with the Representative 2016 Noteholders and the Representative 2014 Noteholders resulted in a proposed arrangement term sheet and Restructuring and Support Agreement, dated as of January 14, 2012 (the “**Initial RSA**”).

6. On January 17, 2012, the Court granted an interim Order (the “**CBCA Order**”) that appointed each of the Petitioner Parties as the foreign representatives for the Petitioner Parties, to apply for relief under chapter 15 (“**Chapter 15**”) of title 11 of the *United States Code* (as amended, the “**Bankruptcy Code**”).

7. On January 17, 2012, contemporaneously with the CBCA Court Filing, CPC, as foreign representative, filed petitions on behalf of all the Petitioner Parties with the United States Bankruptcy Court for the District of Delaware (the “**U.S. Court**”) seeking, among other things, recognition of the CBCA proceeding as a foreign main proceeding and recognition of the stay of proceedings and other relief granted in the CBCA Order. On January 19, 2012, the Company obtained provisional relief under Chapter 15 from the U.S. Court.

8. The CBCA Order did not provide the Company with sufficient relief to maintain operations while attempting to negotiate a consensual restructuring with certain of its creditors. The Initial RSA was subject to, among other conditions, the following two conditions being met by January 31, 2012: (a) a new labour agreement being ratified by all six union locals at the Company’s mills in British Columbia, and (b) two-thirds support of all 2014 Noteholders and 2016 Noteholders. Except for obtaining two-thirds support of all 2016 Noteholders, these conditions were not met by January 31, 2012.

9. On January 31, 2012, the Company sought and was granted relief under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) pursuant to the Initial Order of this Court.

10. On March 5, 2012, the U.S. Court amended the order granting provisional relief and recognized this CCAA proceeding as a foreign main proceeding and recognized the stay of proceedings and other relief granted in the Initial Order.

11. The Company sought relief under the CCAA to address its liquidity issues and to restructure its debt while maintaining business operations in order to allow the Company to continue its business as a strong and competitive industry participant. The Company has substantial operations throughout British Columbia and in the United States. A

recent article by Kevin Clarke, CEO of CPC, in the *Vancouver Sun* discusses the contribution the Company makes to the communities in which it has operating mills in British Columbia: Powell River, Port Alberni, and North Cowichan.

12. The Company has negotiated an agreement with certain 2016 Noteholders and certain 2014 Noteholders, dated March 11, 2012 (the “**Revised RSA**”).

13. I have reviewed a copy of the Revised RSA and a draft copy of the Plan for the purpose of making this Affidavit.

14. The Revised RSA proposes a recapitalization transaction that would be implemented through the Plan that would, among other things, compromise the US\$390 million senior secured notes due 2016 and the US\$250 million senior unsecured notes due 2014. The compromises and arrangements considered by the Plan are discussed in greater detail below.

15. The CCAA process has provided significant stability for the Company and its stakeholders. The Company needs to continue to advance its restructuring efforts under the Revised RSA on the negotiated terms.

16. The Revised RSA requires the Company to, among other things, file the Plan with this Court and obtain the Claims Procedure Order, the Meetings Order and the SISP Order on or before March 20, 2012. The Revised RSA further requires the Company to conduct the Meetings on or before April 23, 2012 and obtain sanction of the Plan by this Court on or before April 25, 2012.

17. It is important that the Company complete its restructuring so that it can emerge and pursue normal business.

18. The draft Claims Procedure Order, the draft Meetings Order and the draft SISP Order have been prepared with a view to adhering to the timelines established in the Revised RSA. The granting of the requested relief would permit the Company to efficiently seek to implement the Plan, failing which a sales process, each as

contemplated by the Revised RSA and provide for the Company's quickest possible emergence from CCAA protection.

The Plan

19. The Revised RSA contemplates that the recapitalization of the Company will be implemented pursuant to the Plan, which affects the Company, the 2016 Noteholders, the 2014 Noteholders, trade creditors and certain of the Company's other unsecured creditors all as set out in the Plan and defined as "**Affected Creditors**". The Affected Creditors are the only creditors whose claims will be affected and/or compromised by the Plan. The Affected Creditors are also the only creditors that will be eligible to receive distributions under the Plan.

20. The Plan, if implemented, would reduce the Company's long-term debt by more than US\$315 million and improve the Company's credit ratios and operating flexibility. In turn, this would enable the Company to operate its business as a going concern, help to preserve the employment of the majority of its employees, and allow the Company to continue to operate in the municipalities of British Columbia that rely heavily on the presence of the Company.

21. As part of its March 20, 2012 court application, the Company seeks authorization to file the Plan.

22. A copy of the management information circular (the "**Information Circular**") that provides Affected Creditors with information in respect of the Plan, which is attached as a schedule to the Meetings Order, is attached as Schedule "B" to the Notice of Application, dated March 15, 2012.

23. The Plan has a number of purposes including:

- (a) to effect a compromise, settlement and payment of all Affected Claims as finally determined for distribution purposes by the Claims Procedure Order, the Meeting Order and the Plan;
- (b) to implement a recapitalization of the 2016 Notes and the 2014 Notes;

- (c) to enable the Company to emerge from the restructuring and move to enhance the viability of the Company.

24. The Plan, if implemented, will also enable the Company to continue going concern operations and will facilitate continued significant employment. It is the expectation of the Company that persons with an economic interest in the Company, when considered as a whole, will derive a greater benefit from the implementation of the Plan than would result from a bankruptcy of the Company.

25. It is my understanding that a Final Order of this Court approving the Plan would constitute a basis to claim an exemption from the registration requirements of the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**"), with respect to the Plan Securities to be issued pursuant to the Plan. Section 3(a)(10) of the U.S. Securities Act provides an exemption from the registration requirements of that statute for the issue of securities in exchange for other outstanding securities where the terms and conditions of the issue and exchange are approved by a court of competent jurisdiction after a hearing upon the fairness of such terms and conditions at which all persons to whom it is proposed to issue such securities shall have the right to appear.

26. It is my understanding that in order to ensure that the Plan Securities issued or made issuable to affected Noteholders and General Unsecured Creditors (as such terms are defined in the Plan) pursuant to the Plan will be exempt from the registration requirements of the U.S. Securities Act pursuant to Section 3(a)(10) thereof, it is necessary that:

- (a) the Court is advised of the intention of the parties to rely on Section 3(a)(10) prior to the hearing required to approve the Plan;
- (b) the interim order of the Court approving the relevant meeting or meetings to approve the Plan specifies that each affected Noteholder and General Unsecured Creditor will have the right to appear before the Court so long as such securityholder enters an appearance within a reasonable time;
- (c) affected Noteholders and General Unsecured Creditors are given adequate notice advising them of their rights to attend the hearing of the Court to approve the Plan and providing them with sufficient information necessary for them to exercise that right, and there are no improper impediments to the appearance by those persons at the hearing;

- (d) the Court is required to satisfy itself as to the fairness of the Plan to affected Noteholders and General Unsecured Creditors;
- (e) the Court has determined, prior to approving the Final Order, that the terms and conditions of the Plan are substantively and procedurally fair to affected Noteholders and General Unsecured Creditors; and
- (f) the order of the Court approving the Plan expressly states that the terms and conditions of the Plan are approved by the Court as being substantively and procedurally fair to affected Noteholders and General Unsecured Creditors.

27. Many of the Noteholders and General Unsecured Creditors reside in the United States of America. Since the completion of the Plan involves issuances of securities to affected Noteholders and General Unsecured Creditors in the United States of America, the Debtors hereby give notice to the Court of their intention to rely on Section 3(a)(10) of the U.S. Securities Act based on the Court's approval of the Plan.

28. The Company has, in the proposed Information Circular, advised the Noteholders and General Unsecured Creditors in the United States of America to whom Plan Securities will be issued or made issuable under the Plan that they shall receive such Plan Securities in reliance on the exemption from the registration requirements of the U.S. Securities Act contained in Section 3(a)(10) thereof, based on the Court's approval of the Plan.

Distribution Under the Plan

29. The Plan contemplates treatment of certain creditors. Section 3.2 of the draft Plan is as follows:

An Affected Claim shall receive distributions as set forth below only to the extent that such Claim is an Allowed Claim and has not been paid, released, or otherwise satisfied prior to the Effective Date.

First Lien Notes Claims Class

- a. The First Lien Notes Claims shall be an Allowed Claim, and for the purposes of distribution shall be in the aggregate principal amount of \$384,534,000, comprised of (i) \$280,434,000 on account of the Class A Notes and (ii) \$104,100,000 on account of the Class B Notes, plus the First Lien Notes Unpaid Interest.

- b. On or as soon as reasonably practicable after the Effective Date, the First Lien Notes shall be cancelled, and in full and final satisfaction of and in exchange for all Allowed First Lien Notes Claims,
 - i. each Class A Noteholder shall receive:
 - 1) in respect of the principal amount of such holder's Class A Notes, its pro rata share of:
 - a. the New First Lien Notes in the aggregate principal amount of \$237,000,000,
 - b. 8,751,960 New Common Shares (which shall equal 58.3464% of the New Common Shares), subject to dilution only from New Common Shares granted to holders of the Warrants, and any Management Incentive Plan, and
 - 2) in respect of the accrued and unpaid interest on such holder's Class A Notes, its pro rata share of the New First Lien Coupon Notes in the aggregate principal amount equal to the First Lien Notes Unpaid Interest in respect of the Class A Notes; and
 - ii. each Class B Noteholder shall receive:
 - 1) in respect of the principal amount of such holder's Class B Notes, its pro rata share of
 - a. the New First Lien Notes in the aggregate principal amount of \$88,000,000,
 - b. 3,248,040 New Common Shares (which shall equal 21.6536% of the New Common Shares), subject to dilution only from New Common Shares granted to holders of the Warrants, and any Management Incentive Plan, and
 - 2) in respect of the accrued and unpaid interest on such holder's Class A Notes, its pro rata share of the New First Lien Coupon Notes in the aggregate principal amount equal to the First Lien Notes Unpaid Interest in respect of the Class B Notes.

Unsecured Claims Class

Unsecured Notes Claims

- a. The Unsecured Notes Claims shall be an Allowed Claim, and for the purposes of distribution shall be in the aggregate principal amount of \$250,000,000 plus the Unsecured Notes Unpaid Interest.
- b. On or as soon as reasonably practicable after the Effective Date, the Unsecured Notes shall be cancelled and, in full and final satisfaction of and in exchange for all allowed Unsecured Notes Claims, each Unsecured Noteholder shall receive its pro rata share (calculated by reference to the aggregate amount of all Unsecured Notes Claims plus all Allowed General Unsecured Claims) of:
 - i. 3,000,000 New Common Shares (which shall equal 20% of the New Common Shares), subject to dilution only from New Common Shares granted to holders of the Warrants, and any Management Incentive Plan, and
 - ii. the Warrants.

General Unsecured Claims

- a. On or as soon as reasonably practicable after the Effective Date, in full and final satisfaction of and in exchange for all Allowed General Unsecured Claims, each holder of an Allowed General Unsecured Claim shall receive:
 - i. if such holder is a General Unsecured Share Creditor, its pro rata share (calculated by reference to the aggregate amount of all Unsecured Notes Claims plus all Allowed General Unsecured Claims) of:
 - 1) 3,000,000 New Common Shares (which shall equal 20% of the New Common Shares), subject to dilution only from New Common Shares granted to holders of the Warrants, and any Management Incentive Plan, and
 - 2) the Warrants; or
 - ii. if such holder is a General Unsecured Cash Creditor:
 - 1) such holder's Convenience Cash Amount, to an aggregate limit of the Maximum Convenience Claims Pool, or, if applicable,

2) to the extent that the aggregate of all Convenience Cash Amounts would exceed the Maximum Convenience Claims Pool:

- a. in respect of 2 times the amount of cash received, such holder's pro rata share of the Maximum Convenience Claims Pool, and
- b. in respect of the balance of such holder's Allowed Claim, such holder's pro rata share (calculated by reference to the aggregate amount of all Unsecured Notes Claims plus all Allowed General Unsecured Claims) of the following Plan Securities otherwise allocable to General Unsecured Creditors:
 - i. New Common Shares, and
 - ii. the Warrants.

Board of Director Approval

30. The Company's board of directors has unanimously recommended that Affected Creditors (as such term is defined in the Plan) vote in favour of each of the resolutions contained in the Plan.

The Claims Procedure

31. As noted above, the Revised RSA contemplates a transaction that will compromise the claims of certain of the Company's creditors. In connection with this, the Company has prepared the Claims Procedure in consultation with the Monitor. A draft Claims Procedure Order is attached as Schedule "C" to the Notice of Application.

32. The Claims Procedure is designed to be an efficient means of providing fair and reasonable notice to the Company's various creditors of the requirement to file proofs of claim in respect of all potential claims against the Company.

33. The Company seeks to proceed with the Claims Procedure as quickly as possible, in parallel with the procedures required to initiate the Plan, to ensure that the determination of creditors' claims does not unduly or unnecessarily delay the

implementation of any restructuring. This will facilitate any vote or votes that may be necessary in respect of the Plan and, ultimately, to facilitate distributions to creditors.

34. Terms not previously defined in paragraphs 35 are defined in the Claims Procedure Order.

Overview of Proposed Claims Procedure

35. By way of general overview only, and as more particularly described in the draft Claims Procedure Order, the Claims Procedure involves the following:

- (a) delivery of the 2014 and 2016 Claims Notices (collectively, the “**Notices**”) by the Monitor to the 2014 and 2016 Trustees (collectively, the “**Trustees**”), respectively;
- (b) establishment of procedures for the Trustees to respond to the amounts prescribed in the Notices;
- (c) advertisement regarding the Claims Procedure in newspaper publications and on the Monitor’s website;
- (d) delivery of a Claims Package to Creditors with Restructuring Claims and Non-Restructuring Claims;
- (e) establishment of a Proof of Claim process for the submission of Creditor Claims and the review of such Claims by the Monitor, in consultation with the Company, to accept, revise or disallow a Claim;
- (f) establishment of a review process for Notices of Revision and Disallowance issued in respect of a Proof of Claim;
- (g) authority for the Company to appoint a Claims Officer, on terms approved by the Monitor, to determine the validity and amount of disputed Claims; and
- (h) establishment of a review process for the Claim Officer’s Determination, if appointed.

Meeting and Voting Procedures

36. The Company also seeks authorization for the calling, holding and conduct of the Meetings to vote in respect of the Plan. Subject to Court approval, the Company proposes to convene the meetings on or before April 23, 2012. Because the Revised RSA

requires the Company to obtain sanction of the Plan by April 25, 2012, it is critical that the Company call the Meetings no later than April 23, 2012.

37. Terms not previously defined in paragraphs 38 are defined in the Claims Procedure Order.

38. By way of general overview only, and as more particularly described in the draft Claims Procedure Order, the Claims Procedure involves the following:

- (a) delivery of an Information Package to Affected Creditors as well as publication of the Information Package on the Monitor's website;
- (b) advertisement regarding the Meetings in certain newspaper publications;
- (c) classification of the Company's creditors into two classes of creditors as follows:
 - (i) First Lien Noteholders; and
 - (ii) Unsecured Creditors, which shall include:
 - A. General Unsecured Creditors; and
 - B. Unsecured Noteholders.
- (d) conduct of the Meetings at the Delta Airport Hotel in Richmond, British Columbia;
- (e) delivery of the Monitor's report to the Court outlining the results of the Vote; and
- (f) seeking approval of the Plan, as described in the various Court orders and further and other relief as required.

The SISP

39. I have reviewed a copy of the SISP for the purpose of making this Affidavit.

40. Under the Revised RSA, the Company has agreed to seek court approval of the SISP Procedures, which will permit the Company to engage in the sale and investor solicitation process in the event the Plan process is not successful (the "**Plan Failure**"). The SISP outlines the procedures and timelines for soliciting bids to purchase all or

substantially all of the assets of the Company or to make an investment in the business and operations of the Company. A copy of the SISP is attached as Schedule "A" to the SISP Order.

41. In the event of a Plan Failure, the SISP will be necessary to properly market a sale or investment in the Company. The SISP is designed to properly market the Company and balance the detrimental effects of a prolonged CCAA process. The SISP is designed to maximize the opportunity to achieve the highest possible value in the sale of all or substantially all of the Company's assets, or the most favourable investment in the Company to enable it to emerge from these CCAA proceedings.

42. The process and timelines outlined in the SISP are fair and reasonable in the circumstances and will enable the Company to properly advertise a sale of, or investment in, the Company to potential bidders.

43. Without a sale or investment, the value of the Company could decline as time goes on and the long-term viability of the Company could be in jeopardy. As a result, the SISP will benefit all of the Company's stakeholders.

44. In connection with the SISP, the Company is seeking the Court's authority and direction to enter into a stalking horse purchase agreement (the "**Stalking Horse Purchase Agreement**"), which shall serve as the stalking horse bid for the purchase of all or substantially all of the Company's assets.

45. By way of general overview only, and as more particularly described in the draft SISP, the SISP involves the following:

- (a) distribution of the Teaser Letter and draft confidentiality agreement to Known Bidders;
- (b) advertisement of the SISP;
- (c) submission by Potential Bidders of certain limited information and an executed Confidentiality Agreement no later than 14 days after the Plan Vote Failure (the "**Potential Bidder Deadline**");

- (d) determination of which Potential Bidders are Qualified Bidders within five days after a Potential Bidder has delivered its materials;
- (e) submission by Qualified Bidders of a Qualified Non-Binding Indication of Interest, 35 days after the Potential Bidder Deadline (the “**Phase 1 Bid Deadline**”);
- (f) assessment of Qualified Non-Binding Indication of Interests within five days of Phase 1 Bid Deadline;
- (g) provided there is a Qualified Phase 2 Bidder, submission of Qualified Purchase Bid or Qualified Investment Bid no later than 21 days from the Phase 1 Bid Deadline (the “**Phase 2 Bid Deadline**”);
- (h) assessment of Qualified Purchase Bid and/or Qualified Investment Bid no later than 5 days after the Phase 2 Bid Deadline; and
- (i) in the event that there are more than one Qualified Purchase Bid and/or Qualified Investment Bid, conducting an auction within three days of the Phase 2 Bid Deadline.

46. There are procedures described in the SISP that allow the process to be terminated in certain circumstances. For instance, in the event that the Company does not receive and/or accept a Qualified Bid(s), or there are no Qualified Phase 2 Bids, the Company must terminate the SISP and proceed with the Stalking Horse Purchase Agreement.

47. All of the above procedures have been negotiated and are included in the Revised RSA.

General

48. The Company continues to work diligently in its efforts to achieve a successful restructuring for the benefit of its stakeholders. In considering the Company's restructuring process to date, the Company anticipates that the implementation of the Plan will provide a greater benefit to those parties with an economic interest in the Company as opposed to a bankruptcy of the Company. In the event of a Plan Failure, the implementation of the proposed SISP will serve to prevent further value erosion, to preserve Catalyst's business as a going concern for all stakeholders, including Catalyst's employees and the communities in which Catalyst operates, and to maximize recoveries for Catalyst's creditors.

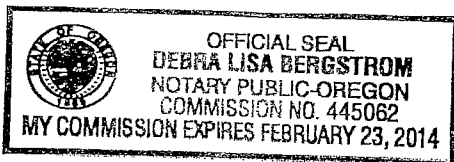


Brian Baarda

STATE OF OREGON)
) ss.:
COUNTY OF WASHINGTON)

On this 15th day of March, 2012, before me personally appeared Brian Baarda, the Chief Financial Officer of the entity named above, and that he, as such officer, executed the foregoing instrument for the purposes therein contained, by signing the name of such entity by himself as such officer.

IN WITNESS WHEREOF I have hereunto set my hand and official seal.


Notary Public

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