

Vancouver

29-Mar-12

REGISTRY

This is the 1<sup>st</sup> Affidavit of Donna Kathler in this case  
and was made on March 29, 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 OF DONNA KATHLER**

**(Sworn March 29, 2012)**

I, DONNA KATHLER, of the City of Airdrie, in the Province of Alberta, Legal Assistant, MAKE OATH AND SAY AS FOLLOWS:

1. I am employed by Bennett Jones Services Limited Partnership, a services limited partnership for Bennett Jones LLP, Barristers and Solicitors, solicitors for the Ad Hoc Group of 2014 Noteholders (the "2014 Group"), and as such, have personal knowledge of the matters

hereinafter deposed to, except where stated to be based on information and belief and where so stated, I believe such statements to be true.

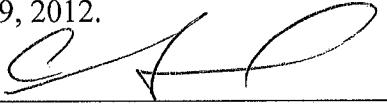
**THE PETITIONERS' AND THE MONITOR'S COMMUNICATIONS WITH THE 2014 GROUP**

2. Attached as Exhibits to this Affidavit are copies of correspondence that Chris Simard of Bennett Jones LLP has advised me have been exchanged between Bennett Jones LLP, Blake, Cassels & Graydon LLP (Canadian counsel to the Petitioners), PricewaterhouseCoopers Inc. (the Court-appointed Monitor) and Fasken, Martineau, DuMoulin LLP (counsel to the Monitor):

- (a) as **Exhibit "A"**, a letter dated March 23, 2012 from Chris Simard of Bennett Jones LLP to John Grieve of Fasken, Martineau, DuMoulin LLP;
- (b) as **Exhibit "B"**, a letter dated March 27, 2012 from Chris Simard of Bennett Jones LLP to Bill Kaplan, Q.C. of Blake, Cassels & Graydon LLP.

3. I am advised by Mr. Simard and believe that none of the letters described in paragraph 2 have been responded to.

4. I make this Affidavit in support of the 2014 Group's Application Response to the application of the Petitioners served on March 23, 2012 and scheduled to be heard on April 2, 2012 and for no improper purpose.

SWORN BEFORE ME at the City of )  
Calgary, in the Province of Alberta on )  
March 29, 2012. )  
  
A Notary Public in and for the Province of )  
Alberta

  
\_\_\_\_\_  
DONNA KATHLER

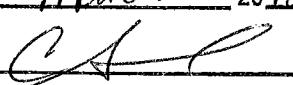
**CHRIS SIMARD**  
Barrister and Solicitor

**Chris Simard**  
Direct Line: 403.298.4485  
e-mail: simardo@bennettjones.com  
Our File No.: 57444.2

March 23, 2012

**Via Email**

Mr. John F. Grieve  
Fasken Martineau DuMoulin LLP  
2900 - 550 Burrard Street  
Vancouver, BC V6C 0A3

THIS IS EXHIBIT "A"  
referred to in the Affidavit of  
Donna Kathler  
Sworn before me this 29th  
day of March 2012  


**CHRIS SIMARD**  
Barrister and Solicitor

Dear Mr. Grieve:

**Re: Catalyst Paper Corporation *et al.* CCAA Proceedings - British Columbia Supreme Court Action S120712**

I am writing further to the court application heard by Mr. Justice Sewell on March 21, 2012, and specifically, with respect to the Order that he granted at that application, regarding the Construction Agreement to be entered into by the Debtor with regard to the Elk Falls mill site (the "Elk Falls Order"). As you know, the Elk Falls Order provides, among other things, that sales proceeds can only "be used, applied or otherwise dealt with by the Collateral Trustee, the Partnership or any of the Petitioners, as applicable" with the consent of the Monitor. You will recall that I advised the Court of my clients' view that the proceeds of the Elk Falls transaction (the "Proceeds") should not be used or released without first ensuring that certain preconditions were satisfied. Mr. Justice Sewell held that if we gave such a notice to the Monitor, the Monitor would not provide a contrary consent and you confirmed the same on behalf of the Monitor.

Accordingly, I hereby formally put the Monitor on notice, on behalf of our clients, the Ad Hoc Group of 2014 Noteholders, that the Monitor must not consent to the use or release of Proceeds unless and until the following preconditions have been satisfied:

- (a) you, as counsel to the Monitor, have rendered a legal opinion regarding the security granted by the Debtor and/or its affiliates to the 2016 Noteholders, confirming both the enforceability and validity of that security and also that the security covers all the assets to be disposed of or transferred in the Elk Falls transaction;
- (b) you have provided your legal opinion to us, on a confidential basis (if necessary);
- (c) any claims of the Attorney-General of British Columbia regarding environmental liabilities associated with the Elk Falls mill site have been resolved, such that there is no risk that such liabilities will be borne by the Debtor's unsecured creditors; and

March 23, 2012

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(d) a sufficient holdback is maintained from the Proceeds to satisfy any court-ordered or other charges that encumber both the Elk Falls property and the Excluded Assets, in an amount sufficient to satisfy that portion of such charges that are properly allocated to the Elk Falls property.

Our clients also expect, and we seek your confirmation, that any portion of the Proceeds that are ultimately distributed to the 2016 Noteholders will be credited against the principal balance of the 2016 Notes and taken into account in considering the proposed Stalking Horse Agreement, the credit bid of the 2016 Noteholders and the fairness of the proposed Plan of Compromise and Arrangement.

We trust the foregoing is satisfactory to the Monitor. Should you wish to discuss this matter, please do not hesitate to contact me.

Yours truly,

**BENNETT JONES LLP**



Chris Simard

cc: S. Richard Orzy  
Raj Sahni  
Client  
Bill Kaplan  
Peter Rubin  
Kibben Jackson  
John Sandrelli

**Chris Simard**  
Direct Line: 403.298.4485  
e-mail: [simardo@bennettjones.com](mailto:simardo@bennettjones.com)  
Our File No.: 57444.2

March 27, 2012

Via Email

Mr. William C. Kaplan, Q.C.  
Blake, Cassels & Graydon LLP  
595 Burrard Street  
Suite 2600, Three Bentall Centre  
Vancouver BC V7X 1L3

**CHRIS SIMARD**  
Barrister and Solicitor

THIS IS EXHIBIT " B " referred to in the Affidavit of  
Donna Vathler  
Sworn before me this 29th  
day of March 20 12  
CS

Dear Mr. Kaplan:

**Re: Re: Catalyst Paper Corporation *et al.* CCAA Proceedings - British Columbia Supreme Court Action S120712**

We have had an opportunity to preliminarily review the Petitioners' materials in support of their application for the approval of the Stalking Horse Agreement, which were served on us on March 23, 2012. We were extremely disappointed to see that the types of information that Mr. Grieve and I both requested in the hearings last week on March 21 and March 22, 2012, and which we understood was a fundamental basis upon which the Monitor agreed to support the provisional approval of the SISP, were not provided. This includes, without limitation, the following (note that all capitalized terms are intended to bear their meanings as defined in the Stalking Horse Agreement):

- a clear statement of which assets are included in the Stalking Horse Agreement;
- a detailed list and description of the Senior Secured Excluded Assets;
- a transparent mechanism (under the control or supervision of the Monitor) for allocating, prior to the auction, the Purchase Price between assets that are subject to the 2016 Noteholders' security versus the Senior Secured Excluded Assets (the latter portion of the Purchase Price is referred to hereinafter as the "SSEA Price");
- clear confirmation that the SSEA Price is to be paid entirely in cash (as opposed to cash and/or the assumption of liabilities);
- rules as to the manner in which a bidder interested only in the Senior Secured Excluded Assets could make a bid and how that bid would be compared fairly to an *en bloc* bid such as the Stalking Horse bid; and

- the Sellers' Disclosure Letter and the Purchaser's Disclosure Letter, both of which are stated to be incorporated by reference into the Stalking Horse Agreement and will contain essential information regarding the nature, scope and impact of the Stalking Horse bid.

Additionally, the Petitioners have tendered no evidence concerning the existence and adequate capitalization of the Purchaser, nor disclosure of which members of the Seller's management will be employed by the Purchaser and the proposed compensation terms.

In our view, it is absolutely crucial that all this information be made available to the Court, the Monitor and all stakeholders as soon as possible and well in advance of the application to approve the Stalking Horse Agreement, which is currently scheduled (tentatively) for April 2, 2012 (we believe that, based on his comments at the March 22, 2012 hearing, Justice Sewell shares this view). First, without this information, there will be an incomplete record before the Court and a total lack of necessary evidence, and the Court and the Monitor will be unable to consider the propriety and fairness of the Agreement to all the stakeholders, including unsecured creditors like our clients. Second, failure to provide this information would deprive other potential bidders of any necessary transparency and predictability and thus would be deleterious to any marketing and bidding process, and would give the 2016 Noteholders (as the Stalking Horse bidder) an undeserved upper hand.

Accordingly, we kindly ask that you deliver this information (along with all the other information regarding the Senior Secured Excluded Assets that we and our clients' U.S. counsel have previously requested, repeatedly) to us without delay. We need to consider it well in advance of the application to determine how our clients' rights are being impacted by the order you are seeking.

If you would like to discuss this matter, please do not hesitate to contact me.

Yours truly,



Chris Simard

CS/dmk

cc: Client  
Rick Orzy  
Raj Sahní  
John Grieve  
Kibben Jackson  
Peter Rubin  
John Sandrelli

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LISTED IN SCHEDULE "A",**

**PETITIONERS**

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**AFFIDAVIT #1 OF DONNA KATHLER**

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S. Richard Orzy  
Chris Simard  
BENNETT JONES LLP  
Barristers and Solicitors  
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855 - 2nd Street S.W.  
Calgary, AB T2P 4K7  
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