

This is the 2nd affidavit
of Stephen Sutherland in this case
and was made on 30/Mar/2012

No. S120712
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, Stephen Sutherland, of 100 Amherst Avenue, North Vancouver, British Columbia,
SWEAR THAT:

1. I am the Sales Account Manager of Canexus Chemicals Canada LP ("Canexus") and
as such I have personal knowledge of the facts and matters hereinafter deposed to except
where stated to be based on information and belief and where so stated I verily believe those
facts to be true.

Supply Relationship with Catalyst

2. Canexus supplies caustic soda to Catalyst Paper Corporation (“Catalyst”). Prior to January 17, 2012, Canexus supplied to Catalyst in accordance with a supply agreement entered into effective January 2007.

3. Following the interim order of January 17, 2012 regarding Catalyst’s CBCA proceedings (the “CBCA Initial Order”), Hamish Doughty, Catalyst’s Procurement Director, advised me that a stay of proceedings in place prevented Canexus from seeking COD payments in respect of the supplies provided post January 17, 2012.

4. On January 30, 2012 Canexus learned through the media that the Union had voted against Catalyst’s proposed restructuring Plan. At that time we were very concerned regarding any future supplies to Catalyst, including a barge that was scheduled to be forwarded to Catalyst on February 1, 2012. We contacted Catalyst to determine the status of their requested delivery. Initially Mr. Doughty again sought to rely on the stay of proceedings in place. However, given the clear indication in the media that the restructuring efforts would not be successful, Canexus was not prepared to supply caustic soda on February 1st without ensuring that payment would be rendered. In order to ensure that the shipments were initiated to Catalyst, Catalyst provided Canexus with a COD payment on February 1st and the shipment was initiated by Canexus. Canexus was able to protect its position through further COD payments during the first week of the CCAA proceedings.

5. On February 6, 2012, Catalyst sought and received an Order (the “Critical Supplier Order”) requiring Canexus and other suppliers to be forced to continue supplying goods to Catalyst, thereby extending credit on the basis of a Critical Suppliers’ Charge.

The Critical Supplier Charge

6. The Critical Supplier Order was opposed by Canexus and various other suppliers. While the Critical Suppliers’ Charge Order was initially granted, the Court provided the Critical Suppliers the right to revisit the issues in the Critical Suppliers’ Charge following March 11th, the date in Catalyst’s original cash flow projections by which Catalyst’s critical financial situation would have passed. The onus on the return date of the motion remains

with the Debtor pursuant to paragraph 1(l) of the Critical Supplier Order, which amended paragraph 25 of the Order granted by Justice Sewell on January 31, 2012 with respect to the initial CCAA application.

7. Since February 6, 2012 Canexus has shipped approximately \$2,751,466.31 of product to Catalyst. A large portion of this amount has been on credit terms of 7-10 days and the remaining amounts have been cash on delivery. A summary of COD and Terms payment as of March 29, 2012 is below:

| | |
|--|--------------|
| Total Term billings to Catalyst (12 Invoices in total) | 1,152,879.73 |
| Total COD billings to Catalyst (4 Invoices in total) | 1,598,566.58 |
| Total billing to Catalyst | 2,751,446.31 |

8. The COD payments were required when Canexus shipment levels reached our Individual Credit Extension Amount ("ICEA"). As we were not obligated to continue supplying in those cases, Catalyst was required to pay for these necessary supplies on a COD basis. In those circumstances administrative arrangements were made where Canexus would send an invoice based on Catalyst's estimated order for the barge shipment and receive payment from Catalyst in order to ensure the barge is released. If actual volume differed from the estimated invoice, Canexus credited the amount back to Catalyst on the next shipment.

9. This is a simple process that has already been implemented with Catalyst in the January 31-February 7, 2012 period, and post filing when the ICEA was reached, and can be implemented if the Critical Suppliers' Charge concept is eliminated by the Court.

10. On March 9, 2012 our counsel wrote to Catalyst and the Monitor seeking information in respect of the critical supplier issues, in anticipation of revisiting the issue post March 11, 2012. A copy of our counsel's letter is attached as Exhibit "A" to this affidavit. Despite multiple follow up efforts from our counsel, we have not received a response to date from

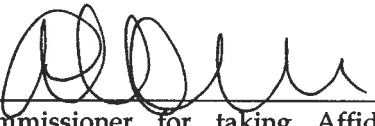
Catalyst's counsel and continue to await the bulk of the information requested of the Monitor.

Future Supply Relationship with Catalyst

11. Upon termination of the Critical Supplier Order and the corresponding charge, Canexus intends to continue its supply relationship with Canexus on a COD basis. Canexus has no plans to discontinue supply.

12. Canexus is prepared to continuing supplying to Catalyst in the absence of the Critical Supplier Order; however, we are not prepared to incur further credit to Catalyst in the circumstances. Canexus has already been exposed financially as part of these restructuring proceedings, for example, through the continued extension of credit and the costs of monitoring these proceedings to ensure that our position is not further eroded through direct and indirect attempts to seek charges ahead of the Critical Supplier Charge.

SWORN (OR AFFIRMED) BEFORE ME at)
Vancouver, British Columbia on)
30/Mar/2012:)



A Commissioner for taking Affidavits for)
British Columbia)

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BY E-MAIL

March 9, 2012

File No.: 120386.1029

This is Exhibit marked "A"
referred to in the Affidavit of
Stephen Sutherland
Sworn before me at the City
of Vancouver, Province of
British Columbia, this 30th
day of March, 2012
A Commissioner for taking
Affidavits for British Columbia

Mr. Mica J. Arlette / Michael Vermette
PricewaterhouseCoopers LLP
PwC Tower
18 York Street, Suite 2600
Toronto ON M5J 0B2

William C. Kaplan, Q.C.
Blake, Cassels & Graydon LLP
2600, Three Bentall Centre
595 Burrard Street
P.O. Box 49314
Vancouver BC V7X 1L3

Dear Sirs:

Re: Catalyst Paper Corporation

As March 11th approaches, being the date which Justice Sewell provided as an opportunity for the critical supplier charge to be revisited, we are writing to raise various issues with you in the hopes that we can reach consensus in respect of the elimination of the critical supplier charge and other terms in the CCAA Orders which adversely affect my client, Canexus, without incurring further legal costs or court proceedings.

Outstanding payment for supplies pre CCAA proceeding

As you know, Canexus supplied Caustic Soda to Catalyst prior to the commencement of Catalyst's CBCA proceedings on January 17, 2012 and post that filing. For the time period of January 17, 2012 to the date the critical supplier order was issued in Catalyst's CCAA filings on February 6, 2012, Canexus made various shipments, and a total of \$49,299.93 remains outstanding in respect of this time period, the details of which are as follows

| Account Name | SD Ship To | Equipment | Document | Amount | Curr. | Date |
|----------------------------|--------------|-----------|----------|--------------|-------|-----------|
| Catalyst Paper Corporation | Port Alberni | 149566 | 90134537 | \$ 12,273.58 | CAD | 1/23/2012 |
| Catalyst Paper Corporation | Port Alberni | 150460 | 90134538 | \$ 12,325.19 | CAD | 1/24/2012 |
| Catalyst Paper Corporation | Port Alberni | 1504661 | 90134619 | \$ 12,368.17 | CAD | 1/25/2012 |
| Catalyst Paper Corporation | Port Alberni | 153462 | 90134696 | \$ 12,332.99 | CAD | 1/26/2012 |

Port Alberni

\$49,299.93

TORONTO

MONTREAL

OTTAWA

CALGARY

VANCOUVER

NEW YORK

LONDON

SYDNEY

STIKEMAN ELLIOTT

Pre-filing payments under section 8(d) of the Initial CCAA Order dated February 3, 2012

Paragraph 8(d) of the Initial CCAA Order provided the Debtor with the ability to make certain payments in respect of shipments made prior to the date of the Initial CCAA Order to "crucial suppliers" (prior to the Initial Order being amended on February 6, 2012, this paragraph referred to "critical suppliers"). We have asked in the past and repeat our request that the amounts owing to Canexus for shipments pre February 3, 2012 be paid. The easiest mechanic under which to make this payment is paragraph 8(d), notwithstanding the comments below.

The shipments made "pre-filing" in this case are not the traditional provision found in CCAA proceedings. In this case the amounts are outstanding and owing to my client for the period directly attributable to the CBCA time period. This is not a "prefiling" period at all but in fact these obligations were incurred at a time when Catalyst was under Court protection and incurring post (CBCA) filing obligations for goods received and used in its operations, for which Catalyst should be held accountable.

The amounts are outstanding only as a result of the unusual request made by the Debtor to ask for a stay of proceedings within the CBCA proceedings. The stay that was sought provided:

No person including, without limitation, any Noteholder or any Trustee that is a party to the 2014 Indenture or the 2016 Indentures, shall have any rights to terminate, accelerate, amend or declare in default any contract or other agreement, including, without limitation, the Indentures, to which any of the Petitioners or the Impleaded Parties are a party, due to the Petitions or Impleaded Parties having made an Application to this Court pursuant to Section 192 of the CBCA being a party to, or subject to, this Proceeding, or having failed to make any interest or other payments during the period prior to such time as within the Proposed Arrangement is approved by the Court and implemented by the Petitioners, other than obligations owing under the Asset-Based Lending Facility provided by J.P. Morgan Chase Bank N.A., J.P. Morgan Securities LLC and CIBC Asset Based Lending Inc. (paragraph 34)

This provision was used by Catalyst as a means of requiring suppliers to continue supplying on credit to the company post the initial CBCA filing.

The CBCA stay of proceedings sought is broader than the stay of proceedings normally found within a CCAA proceeding, for example, that in the Initial CCAA Order of Catalyst:

STIKEMAN ELLIOTT

Until and including February 14, 2012, or such later date as this Court may order (the "Stay Period"), no action, suit or proceeding in any court or tribunal (each, a "Proceeding") against or in respect of the Petitioner Parties or the Monitor, or affecting the Business or the Property, shall be commenced or continued except with the written consent of the Petitioner Parties and the Monitor or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Petitioner Parties or affecting the Business or the Property are hereby stayed and suspended pending further order of this Court.

...

During the Stay Period, all Persons having oral or written agreements with the Petitioner Parties or mandates under a statutory or regulatory enactment for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation, services, utility or other services to the Business or the Petitioner Parties are hereby restrained until further Order of this Court from discontinuing, altering, interfering with, or terminating the supply of such goods or services as may be required by the Petitioner Parties, and that the Petitioner Parties shall be entitled to the continued use of its current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the Order Date are paid by the Petitioner Parties in accordance with normal payment practices of the Petitioner Parties or such other practices as may be agreed upon by the supplier or service provider and the Petitioner Parties and the Monitor, or as may be ordered by this Court. For greater certainty, no Receivable Account Bank may terminate its service management with any Petitioner Party or terminate a Blocked Account Agreement, without further Order of the Court. (paragraphs 20 and 24)

Even more unusual was that the stay of proceedings was sought in the CBCA proceedings without the benefit of the equivalent protection found in section 11.01 of the CCAA ie. that parties not be required to extend credit. It is not clear to me whether the unusual nature of the stay of proceedings sought in the CBCA were brought to the Court's attention at the time the Order was sought, or a full explanation given in respect of the ramifications of the request.

STIKEMAN ELLIOTT

I read with interest Mr. Kaplan's recent article submitted at the ARIL conference, at the same time that the Catalyst proceedings were commenced which notes:

By virtue of the statutory definition, a "security holder" would include the holder of certain kinds of debt issued by the company but would not include trade creditors, suppliers, governments, government agencies or a host of other stakeholders who may be classically defined as creditors of a corporation. These "creditors" cannot be the focus of an arrangement under the statute.

...

The rationale that can and has been used to justify the issuance of this form of stay order is that it maintains the *status quo*, stabilizes the company's operations and enables the company to access the arrangement provisions of the statute. Clearly, this rationale can be a reasonable one in the circumstances of many section 192 arrangements, but it is doubtful whether, in itself, it justifies interference with the rights of third parties who neither participate in the statutory process nor are intended to do so.

...

Accordingly, an issue is raised as to whether trade creditors, or others who are not security holders and are not subject to an arrangement under the statute, should be subject to stay orders under the statute. The potential to affect persons who are not intended to be included in the proposed arrangement should not render a stay order inappropriate, but it does ring a bell of caution.

In any event as a result of the unusual stay of proceedings sought by the Debtor without the corresponding section 11.01 protection my client is out of pocket for obligations supplied during a post filing time period. We ask that payment be rendered forthwith in respect of the balance of the period of January 17 - February 2012 totaling \$49,299.93, failing which we will seek this relief from the Court.

Shipments Post Critical Supplier Order

Pursuant to the terms of the Critical Supplier Order our client was required to continue supplying – on the basis that it was a critical supplier as described by the Debtor – to a maximum credit limit of \$500,000.

STIKEMAN ELLIOTT

Since the date of the critical supplier order, I understand that Canexus has shipped approximately \$1,600,675 of product to Catalyst and is presently awaiting payment on outstanding invoices totaling \$79,824.

Canexus has been required, pursuant to the Critical Supplier Charge, to extend credit of 7-10 days in respect of these amounts.

Justice Sewell invited the "Critical Suppliers" to come forward post March 11th to seek to revisit the Critical Suppliers Charge. Prior to our commencing that motion we would appreciate receiving from the Monitor the following information:

- a) Confirmation of DIP advances made since the date of the CCAA proceedings including the amount of the pre-filing secured debt repaid through the DIP facility;
- b) Confirmation of all fees and interest paid to DIP lender since the date of the CCAA filing;
- c) Schedule of variances from the cashflows as submitted in support of the critical supplier's order and current cashflows for the period ending March 11th;
- d) Confirmation of pre-filing amounts paid to any other suppliers pursuant to paragraph 8(d) of the Initial Order (or otherwise). Your recent Report suggested \$5 million had been paid.
- e) the cashflows submitted in support of the critical suppliers' order provided for the potential of CCAA Restructuring Costs being paid totaling \$5.8 million per week for the period of February 5-26, 2012, which could have been used in part to pay for pre-filing amounts. Confirmation of the amounts and payees in fact paid under this provision to date or contemplated prior to March 11, 2012;
- f) Appraisals or valuations of the DIP lender and critical suppliers' charge as prepared by Debtor, Monitor or DIP lender;
- g) Other information which the Monitor has reviewed to assess the ongoing need or lack thereof for the continuance of the Critical Suppliers' Order;
- h) Confirmation of professionals being paid under the administrative charge and fees incurred to date in the CCAA proceedings;
- i) Monthly financial statements, monthly compliance certificates, weekly 13 week cash flow projections and variance analysis reports, monthly collateral reporting and monthly borrowing base

STIKEMAN ELLIOTT

certificates and other information requested by and provided to the
DIP lender.

Thank you for your prompt consideration of these requests.

Yours truly,



PER

Elizabeth Pillon

EP/as