This is the 1st affidavit of
K. Grierson in this case and was
made on April 2, 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, **Kimberly Grierson**, of Suite 2600 – 595 Burrard Street, Vancouver, British Columbia, Legal Assistant, SWEAR THAT:

1. I am the legal assistant lawyer to Peter L. Rubin at Blake, Cassels & Graydon LLP, counsel for the Petitioners, 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. Attached as **Exhibit "A"** to my affidavit is a copy of a letter dated March 29, 2012 from Bill Kaplan to Chris Simard.

3. Attached as **Exhibit "B"** to my affidavit is a copy of a letter dated March 29, 2012 from Bill Kaplan to Mary Buttery.

SWORN BEFORE ME at Vancouver, British Columbia on April 2, 2012.

A Commissioner for taking Affidavits for British Columbia

Kimberly Grierson

Andrew Crabtree
Barrister & Solicitor
BLAKE, CASSELS & GRAYDON LLP
Suite 2600, Three Bentall Centre
595 Burrard St., P.O. Box 49314
Vancouver, B.C. V7X 1L3
(604) 631-4159

Blakes

Blake, Cassels & Graydon LLP
Barristers & Solicitors
Patent & Trade-mark Agents
595 Burrard Street, P.O. Box 49314
Suite 2600, Three Bentall Centre
Vancouver BC V7X 1L3 Canada
Tel: 604-631-3300 Fax: 604-631-3309

This is Exhibit "A" referred to in the affidavit of K. Grierson sworn before me at Vancouver this 2 day of April 2012

A Commissioner for taking Affidavits for British Columbia

Bill Kaplan*, Q.C.
Dir: 604-631-3304
bill.kaplan@blakes.com

**Denotes Law Corporation*

March 29, 2012

Reference: 00093586/000055

VIA E-MAIL

Bennett Jones LLP
4500 Bankers Hall East, 855 - 2nd Street SW
Calgary, Alberta T2P 4K7

Attention: Chris Simard

Re: Catalyst Paper Corporation et al. CCAA Proceedings - British Columbia Supreme Court Action No. S120712

Dear Mr. Simard:

We have for response your letter of 27 March, 2012

First, you say that you were disappointed that the types of information you requested at the hearing last week were not in the Stalking Horse Agreement. In fact, the issues you refer to are three fold: a valuation of the Senior Secured Excluded Assets ("SSEA"), an allocation of the purchase price between those purchased assests subject to the security of the 2016 Notes and those that are not, and a process by which interested bidders could pursue Powell River Energy Inc. ("PREI") or other SSEA.

All of those issues are in the process of being addressed or will be addressed as part of the SISP procedure. The detailed description of SSEA, and a valuation of them, is being considered as between the Monitor and the Company. The definition of "excluded assets" is relatively precise and is included in materials to which you have had access. We recognize that one area that requires further definition relates to those contracts that are excluded assets by virtue of the fact that they require consent to assignment. As you can appreciate, there is a very large number of contracts to which the Company is a party and it is taking time to review contracts to ensure whether they are properly included on that list.

The other issues will be dealt with in an amendment to the SISP or are as otherwise addressed herein. At the hearing before Mr. Justice Sewell on March 22 there was a discussion concerning allocation of value as between the SSEA and the assets subject to the charge under the 2016 indenture. We do not propose to amend the Stalking Horse Agreement to require, at this point, a specific value allocation for the reasons that we provide below.

As I am sure you are aware, the issue of value allocation in an asset purchase agreement is always a subjective matter. There are tax and other issues that arise. In this particular matter, there is the added issue that competing bidders may wish to enhance the value attributed to the assets subject to the 2016

Notes security and thereby depreciate the value associated with the SSEA in an effort to persuade the 2016 Noteholders to accept that competing bid and the payout of their Notes that would be associated with that bid. It is the company's view that value allocation within the Stalking Horse Agreement will not attract reasonable valuations for the respective asset pools.

It is for that reason that the company is proceeding along the path proposed by the Monitor: a redefinition of the "Parcels" definition in the SISP to specifically allow separate bids to take place on the PREI. In our view, by allowing a separate independent "competition" for that asset the process provides a mechanism to value, through an open market process, the most significant SSEA that is both difficult to value but also likely to be the most valuable. In our view, that amendment to the SISP provides a practical solution to both the issue itself and to the issue of value allocation within the Stalking Horse Agreement.

Your letter also talks about rules as to the manner in which a bidder interested only in PREI or SSEA could make a bid and how that bid would be compared fairly to an en bloc bid. In terms of the former, there will be consequent amendments to the SISP circulated soon. In terms of the latter, it is not practical, or frankly even possible at this time, to define rules for bid comparatives without knowing what the bids might look like. That is clearly a role for the Monitor and the Company to play, a role that is, as you know, subject to Court supervision. In our view, the appropriate approach is to ensure that interested parties can separately bid on PREI and then deal with those bids on a reasonable and appropriate basis as and when they are introduced into the process. The SISP will allow those bids to be separately considered. We will provide a copy of the amended SISP to you shortly.

Your letter enquires concerning the Seller's Disclosure Letter and the Purchaser's Disclosure Letter. The Seller's Disclosure Letter is a complex document that will take many days yet to complete and it is not relevant to the approval sought on April 2, 2012 but will clearly be available prior to execution of the Agreement. The Purchaser's Disclosure Letter, to the extent that you are concerned with it, essentially determines which assets the purchaser wishes to purchase and which the purchaser does not. It cannot be completed until the Seller Disclosure Letter is complete. In that regard, we are providing a copy of this correspondence to Mr Sandrelli so that he can provide some general framework around the intentions of his client at this point in time. You can appreciate that until any purchaser receives the Seller's Disclosure Letter and does some level of due diligence on that letter, a final determination of which assets are to be purchased cannot be made.

You asked for clear confirmation that the SSE price is to be paid entirely in cash. That is the intent and again a copy of this correspondence is provided to Mr Sandrelli for his confirmation.

Finally, you should be aware of the process that we envisage. The approval sought on April 2 is approval to a form of agreement that will be the Stalking Horse Agreement that the Company has been authorized and directed to execute as well as the form of agreement that other bidders will utilise in the process. When the agreement itself is finalised with the various attachments and letters, assuming a Plan Failure, it will be executed and provided to the Court and the parties. Any transaction that arises from the process, whether to the Stalking Horse bidder under the Stalking Horse Agreement or not, is subject to Court approval under section 36 of the CCAA.

We trust the above is responsive to your correspondence.

Yours truly,

Bill Kaplan, Q.C.

WCK/akn

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Blake, Cassels & Graydon LLP
Barristers & Solicitors
Patent & Trade-mark Agents
595 Burrard Street, P.O. Box 49314
Suite 2600, Three Bentall Centre
Vancouver BC V7X 1L3 Canada
Tel: 604-631-3300 Fax: 604-631-3309

Bill Kaplan, Q.C.
Dir: 604-631-3304
bill.kaplan@blakes.com

March 29, 2012

Reference: 93586/55

VIA E-MAIL

This is Exhibit "B" referred to in the affidavit of K. Grierson sworn before me at Vancouver this 2nd day of April 2012
A Commissioner for taking Affidavits for British Columbia

Davis LLP
2800 Park Place
666 Burrard Street
Vancouver, BC V6C 2Z7

Attention: Mary I.A. Buttery

Dear Ms. Buttery:

Re: Catalyst Paper Corporation et al

We have for reply your letter of March 28, 2012.

Your letter of March 28, 2012 raises literally pages of questions concerning the Monitor's Report and issues associated with the estate generally and the Critical Suppliers' Charge specifically. Given that you have filed a Notice of Application with respect to the Critical Suppliers' Charge, we are not certain whether your letter is merely tactical, or whether you anticipate a substantive response. Of course, to the extent you do anticipate a substantive response, virtually all of your issues are raised with the Monitor and its Report, rather than the Company. Nonetheless, it is patent from the extensive list of enquiries that you make, and the fact that many of them are actually answerable on the basis of review of the materials that have been provided to parties in the Report and other documents, that the Monitor could not possibly respond to your letter by April 2, 2012.

Notwithstanding the apparently tactical approach of your letter, it raises some issues that should be generally discussed among the parties. It is made clear from the Monitor's Report that, in the short term, liquidity does not allow any lifting of the charge and that such an order would be inconsistent with the order as originally granted. There is, therefore, time for the parties to engage a discussion concerning the appropriate future course of action with respect to the Critical Suppliers' Charge and other issues that you have raised in your correspondence.

In our view, the appropriate way forward is for counsel for the Critical Suppliers, the Monitor and its counsel and Company counsel, to meet to discuss a variety of issues including the operation of the charge to date, issues raised by your correspondence, and the longer term view of the relationship going forward to try to resolve some of these issues. We have proposed to the Monitor that the Monitor take steps to convene such a meeting, and we trust that you will see the value of a discussion. We are relatively confident that on review of the cash flows generally, the Court will be reluctant to disturb the charge, especially in light of the

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fact that the objective evidence on the ground is that the charge is operating as intended, your clients are being paid on a regular and secure basis and that with a Plan of Arrangement filed and a backup sale process in place, the security associated with the charge has been enhanced by the process. Nonetheless, our clients' preference is to resolve these matters consensually if possible.

Yours truly,

Bill Kaplan, Q.C.

WCK/atj

c: John F. Grieve, Fasken Martineau
Kibben Jackson, Fasken Martineau