Court of Appeal File No. CA39754

COURT OF APPEAL

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"

REPLY BOOK FOR LEAVE TO APPEAL OF THE RESPONDENTS CATALYST PAPER CORPORATION AND THE PETITIONERS LISTED IN SCHEDULE "A"

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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

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TAB 1

This is the 1st affidavit of
B. Baarda in this case and was
made on January 31, 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

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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, 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. In preparing this Affidavit, I have also consulted with other members of the senior management team of Catalyst (defined below) (the "**Senior Management**").

2. I am authorized to make this affidavit on behalf of CPC. This affidavit is affirmed in support of a Petition by CPC, certain of its direct and indirect subsidiaries listed in Schedule "A" to the Petition (collectively, the "**Petitioners**") and Catalyst Paper General Partnership (collectively, with the Petitioners, the "**Petitioner Parties**", "**Catalyst**" or the "**Company**") for relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**").

3. This Petition arises as the result of a variety of circumstances, as described below, which require the Company to restructure in order to ensure that it can proceed as a viable business entity going forward. At present, the value of the Company's assets if sold on a going concern basis is less than its liabilities. Further, without financing through a Debtor in Possession facility, the Company will be unable to continue to satisfy its financial obligations as they become due.

4. The Company is optimistic that restructuring under the protection of the CCAA will have the effect of improving Catalyst's long-term financial prospects while preserving value and permitting the Company to continue to operate on a going concern basis during and beyond the period of creditor protection.

5. I have read the Petition to be filed in these proceedings and the facts set out in Part 2 therein are true. Attached and marked as **Exhibit "A"** to this my affidavit is a true copy of the draft Petition that I reviewed. Unless otherwise defined herein, capitalized terms used herein have the meaning ascribed to them in the draft Petition.

The Company

6. CPC is a company incorporated under the *Canada Business Corporations Act*, R.S.C. c-44 ("**CBCA**"). It was originally incorporated as British Columbia Forest Products Limited and, through a series of mergers, acquisitions and restructurings, became the principal operating

company of the group of companies known as Catalyst. CPC is the ultimate parent company of 28 direct and indirect subsidiaries.

7. The authorized capital of CPC consists of an unlimited number of common shares and 100,000,000 preferred shares. As of January 14, 2012, Catalyst had 381,900,450 common shares issued and outstanding (the "**Shares**"). CPC is a publicly traded entity which trades on the Toronto Stock Exchange under the symbol TSX:CTL. As at the close of trading on January27, 2012, the Shares traded at $0.02.

8. The other Petitioners include all of Catalyst's Canadian and U.S. subsidiaries which are guarantors under the ABL Facility, the 2016 Notes and the 2014 Notes.

9. CPC's principal subsidiary in the United States is CP Holdings, which is a wholly owned subsidiary of CPC. All of the American Subsidiaries have assets in Canada, namely funds on deposit in bank accounts located in Vancouver, British Columbia.

10. Catalyst Paper General Partnership (the "**General Partnership**") is a general partnership between CPC, who holds a 71.3% general interest in the General Partnership, and Catalyst Pulp, who holds the remainder. The General Partnership maintains for its business purposes an office at 2nd Floor, 3600 Lysander Lane, Richmond, British Columbia.

11. The General Partnership carries on all of the Company's Canadian manufacturing activities and CPP Sales conducts primarily all of the Company's Canadian sales.

12. The General Partnership carries out all the Canadian manufacturing activities of the Company and employs the hourly and salaried Canadian employees located at the Canadian manufacturing sites. The General Partnership and CPP Sales are responsible for the Canadian collective agreements and, as applicable, the obligations under them including the obligation to provide post-retirement benefits to retired employees and to provide bridge pension benefits for employees who retire between the ages of 60 and 65.

13. A stay of proceedings with respect to the General Partnership and the Petitioners is necessary in order to preserve the value and assets of the Company as the Company seeks to

restructure. In light of the relationship between the General Partnership and the Petitioners, a successful restructuring cannot be implemented without the General Partnership receiving the protections afforded to the Petitioners under the CCAA.

14. I understand that each of the partners, CPC and Catalyst Pulp, of the General Partnership have authorized the General Partnership to enter into arrangements with a debtor in possession ("**DIP**") lender to arrange for DIP financing for the purposes of this CCAA proceeding. In addition, I understand that CPC and Catalyst Pulp have each authorized the General Partnership to be subject to these CCAA proceedings and the terms of any Initial Order made by this Court, including granting security over all of the assets, property and undertaking of the General Partnership.

15. Catalyst is the largest producer of mechanical printing papers in western North America and provides paper and pulp for commercial printers, publishers and paper manufacturers in North America, Latin America, the Pacific Rim and Europe. Catalyst's operations are conducted through various subsidiaries that are incorporated in various jurisdictions. As set out in greater detail below and in the Petition, the Company owns and leases several properties throughout North America that are associated with its operations.

16. Attached as **Exhibit "B"** is a corporate chart showing the Petitioners, the General Partnership and other entities affiliated with Catalyst.

Jurisdiction of the Proceeding

17. The Petitioner Parties are part of a consolidated business comprising various manufacturing, sales, and distribution facilities and offices in Canada and the United States and are operationally and functionally integrated in many respects. The Petitioner Parties are governed by CPC directly.

18. CPC's head office and the registered offices of each Canadian Subsidiary are located in Richmond, British Columbia. CPC, the General Partnership, CP Holdings and CP Snowflake are borrowers under the ABL Facility which is secured by all of Catalyst's current assets. CPC is the issuer of the 2016 Notes and the 2014 Notes.

19. It is currently contemplated that this CCAA proceeding will be the primary court-supervised restructuring of the Company.

20. Catalyst proposes that the American Subsidiaries be included in this proceeding in order to deal with the guarantees provided by the American Subsidiaries with respect to the ABL Facility, the 2016 Notes and the 2014 Notes and the requirement that a restructuring plan include issues related to the American Subsidiaries. As far as practicable, it is otherwise the Company's intention that the American Subsidiaries will continue to operate on a business as usual basis during this proceeding, including payment of its ongoing trade and employee obligations.

21. The Petitioner Parties need to ensure that the American Subsidiaries are protected from general creditor actions in the United States. The Petitioner Parties also require a recognition order under Chapter 15 of the United States Bankruptcy Code to assist with global implementation of the restructuring. The DIP Facility (defined below) will not be fully available until the Petitioner Parties have obtained a recognition order from the U.S. Court. In order to obtain this Order, the Petitioner Parties, in part, require confirmation from this Court that British Columbia is the Petitioner Parties' Centre of Main Interest.

22. The Petitioner Parties' operate primarily from British Columbia notwithstanding the existence of certain operations in the United States. The facts demonstrating that the Petitioner Parties operate from British Columbia are:

(a) all of the Petitioner Parties have assets in Canada and each of the companies comprising American Subsidiaries has funds in a bank account at the Canadian Imperial Bank of Commerce ("**CIBC**");

(b) the operations of the Petitioner Parties are directed from CPC's head office in Richmond, British Columbia;

(c) all of the American Subsidiaries have management staff who report directly to CPC on issues affecting the operations and business activities of the American Subsidiaries;

(d) three of the Company's mills, which constitute the majority of the Company's production capacity, are in British Columbia;

(e) corporate governance for the Petitioner Parties is directed from Richmond, British Columbia;

(f) strategic and key operating decisions and key policy decisions for the Petitioner Parties are made by centralized Senior Management located in Richmond, British Columbia;

(g) the Petitioner Parties' tax, treasury and cash management functions are managed from Richmond, British Columbia and local plant finance staff report to senior finance management in Richmond, British Columbia;

(h) the Petitioner Parties' human resources functions are managed from Richmond, British Columbia and all local human resources staff report into Richmond, British Columbia;

(i) primary research and development functions including new product conceptions and development, regulatory and clinical development, safety issues and quality control are directed from and carried out in Richmond, British Columbia;

(j) the Petitioner Parties' information technology and systems are directed from Richmond, British Columbia;

(k) plant management and senior staff of the Petitioner Parties regularly attend meetings in Richmond, British Columbia;

(l) all public company reporting and investor relations are directed from Richmond, British Columbia;

(m) Senior Management and all sales (including the United States sales functions), manufacturing (including the general manager of the Snowflake Mill), operations (including the general manager responsible for the Apache Railway) and legal staff report to CPC's CEO, Kevin Clarke, who is based in Richmond, British Columbia; and

(n) the vast majority of the Company's major suppliers and creditors deal with, and recognize, Richmond as the centre of operations for all of the companies.

23. The January 17, 2012 Interim Order in the CBCA proceedings commenced by Catalyst declared that British Columbia was the centre of main interest of Catalyst and its subsidiaries, including, but not limited to, the Petitioner Parties. On January 19, 2012, upon a motion commenced by Catalyst, an Order was granted in the United States Bankruptcy Court for the District of Delaware granting provisional relief for recognition of the CBCA proceedings as a foreign proceeding.

24. Of the Senior Management, the VP Sales is the only individual who resides permanently in the U.S. Mr. Clarke, the CEO, is a U.S. citizen who has residences in the U.S. and Canada, and attends to Company business primarily from the Company's head office in Canada. Mr. Clarke assists with international and U.S. sales functions and spends time in the U.S. attending to those functions. His principal office is in Richmond, British Columbia and he spends over 60% of his time in Canada.

25. The Petitioner Parties intend that the relief requested in the Chapter 15 cases will include, among other things:

(a) recognition of the CCAA proceeding under Chapter 15 of the Bankruptcy Code, including but not limited to any and all relief available under section 1520 of the Bankruptcy Code;

(b) establishment of any of the Petitioners on its own behalf, and/or CPC on behalf of any or all of the Petitioner Parties, as foreign representatives;

(c) enforcement of the Initial Order in the United States, including any portion of the Initial Order related to DIP financing and the enforcement of the stay of proceedings, including in respect to enforcement of termination rights of any party against one of the Petitioner Parties; and

(d) enforcement of the Confirmation Order and any final Plan approval or implementation order in the United States.

26. It is most expedient and efficient that the restructuring of Catalyst and the treatment of Catalyst's debt obligations be implemented through one reorganization proceeding that is overseen and directed by the Court in Canada, which is the CPC's home jurisdiction and the centre of the Petitioner Parties' management, business and operations.

Key Suppliers

27. Due to its circumstances, the Company has not, for some time now, kept significant inventory on hand. The Company relies on efficient and expedited supply to ensure that its operations continue, particularly in the current situation of lower inventory levels.

28. The Company has worked with the Proposed Monitor to identify a list of suppliers it has determined to be key to the business and the continued operation of the Company's business.

The Company and the Proposed Monitor considered various factors in determining these key suppliers. These factors include the importance of the supplier to the Company's operations, the nature of the goods or services supplied and whether there are alternative supply sources, the ability of the supplier to either remain in business or continue normal operation if not paid, the ability and likelihood that the supplier may delay or otherwise restrict supplying goods or services in the event of the Company's nonpayment, the volume of the goods or services supplied, the potential for disruption to the Company's operations if the supplier delays or fails to expedite supply of goods or services pursuant to their existing contracts, the ability of the supplier to maintain a possessory lien on the property, and the amount the Company currently owes to each supplier.

29. It is my understanding that a stay of proceedings may require suppliers to continue to supply goods and services but will not allow the Company to require expedited supply from its suppliers or require suppliers to extend credit. Furthermore, it is my understanding that without approval from the Court amounts owing to suppliers in respect of pre-filing debt cannot be paid. As a result of the unique circumstances discussed below, Catalyst is seeking approval of the Court to allow it to pay certain pre-filing amounts, but only with Monitor approval, and to compel certain critical suppliers to continue to supply goods and services on usual trade and credit terms and to create a critical suppliers' charge for this group of critical suppliers.

30. In order to ensure adequate and timely supply of required products and services, the Company requires flexibility to both compel supply, access credit terms on the basis of a critical supplier charge and negotiate credit terms going forward which might require some payment of pre-filing debt. The Company must ensure continued good relations with suppliers and be able to offer them a variety of options related to the terms upon which they will continue to supply to the Company during these proceedings.

31. I also understand that a number of the Company's key suppliers are in a fragile financial state and any stay of proceedings that results in these suppliers not being paid certain pre-filing amounts outstanding could result in these suppliers suffering financial distress and an inability to supply even if ordered to do so.

32. In addition, there are several suppliers who may have the ability to exercise possessory liens or use otherwise lawful means to require the Company to pay the amounts outstanding to them. Any such action may disrupt the operations of the Company and negatively impact any potential restructuring. The Company requires the flexibility to pay these suppliers or, if applicable, to stay any exercise of such a possessory lien in order to ensure continued, uninterrupted operations.

33. The Company relies on an extensive and interwoven network of suppliers and service providers to ensure the continuance of its business. These suppliers are necessary to the production of the Company's product as well as the delivery of the Company's product to its customers in a highly competitive industry. A number of these suppliers may request a payment of amounts owing from the Company if the Company obtains CCAA protection or, if unpaid, will likely require continuing supply on cash on delivery terms, which, owing to the nature of the business, are either extremely cumbersome or simply not tenable.

34. For a number of suppliers in the below categories, the quantity of product and the general delivery process make cash-on-delivery arrangements unworkable. Amounts to be paid to these suppliers can often only be established once the product has arrived at the Company's mill site. The Company is unable to determine what the cost of the supply will be before the products leave the suppliers' facilities. The payment of certain pre-petition amounts if consented to by the Proposed Monitor will permit the Company to make arrangements with these suppliers that will ensure the continuation of supply. The Company intends to continue to rely on those suppliers with which it has contracts that were entered into prior to the filing of the Petition.

35. For the most part, these suppliers and service providers and the reasons for their importance to the Company can be classified into five general categories: chemical suppliers; fibre suppliers; recovered old newsprint suppliers; utilities and other fossil fuel suppliers; and freight services providers.

36. Catalyst's manufacturing processes require certain chemicals. For many of these chemicals, there are very few suppliers: in some cases, only one or two companies have the particular chemical available. In addition, the manufacturing processes and the transportation of

the chemicals themselves have a lengthy timeline. Any disruption to the timely transit of the chemicals may cause harm to the Company and its business. Therefore, the Company wants to ensure (1) that its contracts with its chemical suppliers are supported and that certain arrears under these contracts can be paid if necessary, and (2) that the Company may renew contracts with these chemical suppliers, if necessary, during the CCAA proceedings so as not to disrupt supply.

37. The manufacture of paper requires the supply of various types of wood fibre. The Company's fibre suppliers are crucial to the Company's business. In particular, there are three categories of fibre suppliers that are particularly essential to the Company. Firstly, there are only a few suppliers who are able to provide the required high volume of certain types of fibre for the Company's needs. Due to the large production capacity of Catalyst's business, certain types of fibre are required in substantial volumes. Secondly, some fibre suppliers provide unique products that are necessary for the Company's needs and are unavailable from other suppliers. Thirdly, there are certain companies which control the storage facilities in which Catalyst maintains its inventory of fibre. These companies may be able to exercise possessory liens over the stored fibre, which would interrupt the Company's delivery system and production. Certain of the suppliers of fibre to the Company are themselves financially fragile and a failure to receive payment for supply could render them financially incapable of continuing efficient supply.

38. The primary raw material for the Snowflake Mill is old newsprint ("**ONP**"). There has been an increasingly limited supply of ONP due to decreasing consumption of newspapers in the U.S. as well as an increased demand for ONP in Asia. The Company will likely suffer heavy losses in the event of any disruption of its ONP supply. Early last year, a stockpile of ONP was destroyed in a fire, which resulted in losses to the Snowflake Mill of $4.1 million. The Company must ensure a continued supply of ONP to keep the Snowflake Mill operational. Already a number of suppliers have compressed usual trade terms to ensure seven day terms or, in two cases, cash deposits. The Company must re-establish normal trade terms and requires a flexible arrangement under the orders to do so.

39. The provision of utilities and other fossil fuels are necessary for the functioning of the Company's operations. Any interruption of the supply of gas or power to the Company's operations would cause significant production problems. The Company expects that the usual stay provisions should allow it to resolve supplier issues for fuel but again, require some flexibility in that regard.

40. The Company must maintain its widespread transportation and distribution network in order to ensure the continuation of the business. The Company needs to be able to maintain flexibility in dealing with carriers whether or not those carriers can exercise possessory liens. Some of the routes of transport are in areas with limited service available from transportation service providers. The Company requires timely deliveries to and from these areas for the continued functioning of its business and requires continuation of the contracts with its current transportation service providers.

41. The Company requires the ability to either provide a critical supplier charge or pay certain pre- and post-filing payables to those suppliers it considers essential as confirmed by the Proposed Monitor. In the event the Company encounters supplier issues post-filing, the Company, with the approval of the Proposed Monitor may enter into arrangements with other suppliers which could involve some payment for pre-filing payables. The Company is aware of the potential prejudice to other creditors of making these payments and intends to keep them to a required minimum level. However, this proposal is specifically designed to maintain efficient operations and avoid losses that would erode value for all stakeholders.

42. The Company intends to seek an order that it be subrogated to the rights of any creditor receiving payment of pre-petition debts pursuant to this arrangement.

Cash Management

43. The Company's operations require the collection and movement of funds through a number of bank accounts held at the CIBC, JPMorgan Chase Bank, N.A. ("**JPMorgan**") and Royal Bank of Canada ("**RBC**"), in Canada, and CIBC, JPMorgan and Wells Fargo, in the United States, which is managed through the Company's head office in Richmond, British

Columbia (the "**Cash Management System**"). Catalyst uses the Cash Management System in the ordinary course, which involves the deposit of funds:

(a) in Canada, into a receipts account held by CPP Sales (the "**Receipts Account**"), which are then transferred to an account held by the General Partnership; and

(b) in the United States, through a number of lockboxes, which are consolidated in a master lockbox account held by CP USA, which are then transferred to various CP USA accounts and accounts for other American Subsidiaries.

44. The funds held by CP USA are used for CP USA's own payroll and disbursements accounts, as needed. Excess monies are transferred from CP USA to the Receipts Account and to CP Snowflake as a payment of intercompany purchases. Monies transferred to CP Snowflake are used to make required operational disbursements.

45. Funds are transferred from the Receipts Account to the General Partnership as a payment of intercompany purchases. These monies are then used to make required operational disbursements through the Company's central disbursement accounts held in Canadian and US currency.

46. The Cash Management System comprises forty-four (44) bank accounts:

(a) In Canada, nineteen (19) accounts are maintained with CIBC and JP Morgan Chase in Canadian currency held by CPP Sales, CPC, the General Partnership, Catalyst Pulp, Catalyst Pulp Sales, CP Energy Holdings, Pacifica Poplars and 0606, and ten (10) accounts are maintained with CIBC and JP Morgan Chase in U.S. currency held by CPP Sales, CPC, the General Partnership, Catalyst Pulp, Catalyst Pulp Sales, CP Holdings and Pacifica Poplars US; and

(b) In the U.S., fourteen (14) accounts maintained with JPMorgan, Wells Fargo and CIBC in American currency are held by CP USA, CP Snowflake, Apache, CP Recycling, CP Holdings, and Pacifica Poplars US, and one (1) account is maintained with CIBC in Canadian currency held by CP Holdings.

47. Attached as **Exhibit "C"** is a diagram of the Cash Management System. The Company has transferred its accounts from RBC to CIBC; however, some customers are still sending money to the RBC accounts.

48. The Company incurs charges on its Cash Management System to the various banks that maintain the accounts in the Cash Management System. I understand that these banks require their charges to be protected by a priority charge order with the intention that the charges are to the benefit of the bank maintaining the account.

49. It is my understanding that, under the ABL Facility, the fees and services for the portion of the Cash Management System managed by CIBC are, as between JPMorgan and CIBC, subordinate in priority to those of JPMorgan pursuant to the tiered payment scheme set out in the ABL Facility. In the month of December 2011, the banking fees payable to CIBC were approximately $6,500.

50. The Company has existing accounts that are subject to blocked account agreements. As a condition to obtaining the DIP Facility (defined below), the Company seeks to transfer the management of those accounts to the DIP Agent (defined below) without incurring the expenditures necessary to transfer those accounts.

51. As of the date of this Affidavit, each of the companies comprising the American Subsidiaries owns and maintains a bank account at a Canadian chartered bank in Vancouver, British Columbia which maintains such funds on deposit.

52. The Cash Management System is managed by the head office in Richmond British Columbia, in conjunction with the local entity finance departments. By establishing the Cash Management System and by centralizing control over the Petitioner Parties' cash management arrangements, Catalyst is able to facilitate cash forecasting and reporting, monitor collection and disbursement of funds and maintain control over the administration of various bank accounts required to effect the efficient collection, disbursement and movement of cash. The Cash Management System is essential to the orderly management of the Company's business affairs. In the view of Senior Management, a significant change to the current system would be seriously

disruptive to normal operations. Accordingly, the Petitioner Parties intend to maintain the Cash Management System, as modified pursuant to the DIP Facility (defined below), throughout the course of this CCAA proceeding.

Outstanding Debt Obligations

53. As set out in greater detail in the Petition, Catalyst has substantial operations that are the result of a history of business and growth. The growth of Catalyst throughout the first half of the 2000s was achieved in part through Catalyst's incurrence of debt. Catalyst's ability to repay and service that debt load has been significantly impaired by the significant and more rapid than expected declines in demand for its products and the unforeseen global financial instability. Interest payments and payments to address solvency deficiencies in its pension plans have diverted funds away from manufacturing, product development, sales, marketing and other critical business development activities.

54. The Company's indebtedness limits its ability to plan for or to react to changes in its business and the industry. It also increases Catalyst's vulnerability to adverse economic and industry conditions and has limited Catalyst's ability to obtain alternative financing for debt reduction, working capital requirements, capital expenditures, acquisitions, general corporate and other purposes. Finally, it places the Company at a disadvantage relative to its competitors, most of which have less indebtedness or greater access to financing.

55. Two of the Company's significant secured creditors are the lenders under the ABL Facility (the "**ABL Lenders**") and the holders of the 2016 Notes.

The ABL Facility

56. The ABL Facility is a revolving line of credit that the Company has used for various financial needs. The ABL Facility is a $175 million facility. The ABL Facility provides Catalyst with liquidity for working capital and general corporate purposes. In addition to a line of credit, the ABL Facility provides for letters of credit and other bank services. Availability under the ABL Facility is determined by a borrowing base calculated primarily on eligible accounts receivable and eligible inventory less certain reserves. As of January 27, 2012, the

borrowing base was approximately $150 million. The Company has only drawn on the ABL Facility as necessary. As of January 27, 2012, the Company had drawn approximately $63 million and approximately $32 million issued through letters of credit.

57. Interest on the drawings of the ABL Facility is at the prime rate for drawings in Canadian currency and the US prime rate minus 0.25% for American currency drawings. The fees for the letters of credit issued under the ABL Facility are calculated at 2.5%.

58. The ABL Facility is secured by a first priority charge on the Petitioner Parties' current assets including accounts receivable, inventories, cash, and a second priority charge over those assets subject to the first priority charge of the 2016 Notes, as described in the Petition. There are certain assets such as certain contracts and equipment and financing leases, and the Company's interests in joint venture projects including Powell River Energy Inc., that are excluded from the security charge ("**Excluded Assets**").

59. From and after the filing date, as discussed below, it is the Company's intention to use accounts receivable to first pay down the amount drawn from the ABL Facility and, second, to cash collateralize the letters of credit issued under the ABL Facility that cannot be transferred to, or issued under, the DIP Facility (defined below). The Company expects to pay off the ABL Facility in full in approximately four weeks from the date of filing.

2016 Notes

60. As of December 31, 2011, the Company owed the holders of the 2016 Notes US$390 million. Discussions have taken place, and continue, with representative holders of the 2016 Notes (the "**Representative 2016 Noteholders**") and their advisors concerning the potential restructuring alternatives for the Company, including proposals that relate to the restructuring of both the 2016 Notes and the 2014 Notes. The discussions have at various stages included both the 2016 Noteholders and the representative holders of the 2014 Notes (the "**Representative 2014 Noteholders**") and their respective counsel and financial advisors.

61. The discussions referred to in paragraph 60 have been ongoing for several months and continue as of the date of this Affidavit. The Company is optimistic that these discussions will result in a restructuring plan that will achieve the Company's objectives in initiating this process.

62. In the context of the restructuring discussions with the Representative 2014 Noteholders and the Representative 2016 Noteholders, Catalyst has agreed to pay the separate legal fees of the Representative 2014 Noteholders and the Representative 2016 Noteholders. In addition Catalyst has agreed to pay certain fees and expenses of the financial advisors of the Representative 2014 Noteholders and Representative 2016 Noteholders.

63. Additionally, in the context of the restructuring discussions with the Representative 2014 Noteholders and the Representative 2016 Noteholders, the Company's Directors (defined below) came to the conclusion that it would not be in the Company's interest to make the December 15, 2011 interest payment contemplated by the 2016 Note Indenture. The 2016 Note Indenture contains a provision whereby if that interest payment is not paid by, or on January 17, 2012, that non-payment could constitute an event of default pursuant to the 2016 Note Indenture. Other than that interest payment, the Company is current in respect to its obligations pursuant to the 2016 Notes, the 2014 Notes, and generally its other creditor obligations, up to the date of the filing of these proceedings.

64. By way of Intercreditor Agreement dated as of March 10, 2010, as amended (the "**Intercreditor Agreement**") the respective priorities of the security granted under the ABL Facility and the 2016 Notes over the assets of Catalyst were agreed to. Attached as **Exhibit "D"** is a copy of the Intercreditor Agreement (including the May 31, 2011, Agreement Of Successor To Be Bound).

Significant Unsecured Creditors

65. The Company owes various other amounts to unsecured creditors. The most significant unsecured creditors are the holders of the 2014 Notes, who are owed in the aggregate US$250 million. The 2014 Notes are unsecured notes issued pursuant to an Indenture dated March 23,

2004. Interest at $7^3/_8\%$ is payable on the principal amount of those Notes and the next semi-annual interest payment of approximately $9 million is due on April 1, 2012.

66. As of January 12, 2012, the Company had unsecured trade debt in the approximate amount of $80 million in respect of trade and supply obligations arising in the normal course of business. The Company intends to pursue a restructuring that will result in the payment of all trade creditors for supplies and services provided, including those provided prior to the filing date, however at this time the Company cannot ensure that such an outcome will result.

67. As of December 31, 2011, the amount of accrued vacation pay the Company owes to its employees was approximately $23 million.

Pension Plans

68. The Company maintains a variety of registered and unregistered pension plans.

69. In 2010, Catalyst made cash payments of approximately $35.7 million towards its registered and unregistered pension plans and other post-employment benefits. In 2011, the Company made payments of approximately $42.3 million for current and past service costs. In addition, the Company is required to make additional contributions to the registered pension plans in order to address their solvency deficits. As such, these plans and other post-employment benefits represent a significant use of the Company's available funds.

70. The Company is current on all required pension payments including special payments prescribed by the B.C. Superintendent of Pensions.

Registered Plans

71. The Company maintains three Canadian registered defined benefit pension plans for its Canadian employees:

(a) Catalyst Paper Corporation Retirement Plan for Salaried Employees, B.C. Reg. No. 85400-1 (the "**Salaried Plan**");

(b) Catalyst Paper Corporation Retirement Plan "A", B.C. Reg. No. 85944-1 ("**Plan A**"); and

(c) Catalyst Paper Corporation Retirement Plan "C", Can. Reg. No. 55234 ("**Plan C**").

72. The Salaried Plan is the umbrella plan for the Company's non-union employees and provides a pension based on years of service and earnings. As of January 1, 2010, the employees in the Salaried Plan ceased to participate in the defined benefit segment of the Salaried Plan and began to participate in the defined contribution segment of the Salaried Plan. Salaried employees hired after January 1, 1994 enrolled in the defined contribution segment of the Salaried Plan.

73. As at December 31, 2010, the Salaried Plan had a market value of approximately $284 million and a deficit as measured on a solvency basis of approximately $73.5 million. As at December 31, 2010, there were 1,477 members of the defined benefit portion of the Salaried Plan and 572 members of the defined contribution portion of the Salaried Plan. The Company made total contributions to the Salaried Plan in 2011 of approximately $8.5 million.

74. In October 2009, the B.C. Superintendent of Pensions granted the Company a five-year extension of the time period to make special payments for solvency deficiencies.

75. By letter dated December 14, 2011, the Financial Institutions Commission of B.C. ("**FICOM**") has proposed a modified schedule to address the solvency deficiency in the Salaried Plan that involves smaller special payments in each year, plus additional amounts determined in relation to the Company's EBITDA. However, FICOM states that this modification, if accepted and implemented prior to a CCAA filing, will be automatically cancelled upon a filing. Attached as **Exhibit "E"** is that letter sent by FICOM to me.

76. Plan A was developed under predecessor employers for certain unionized employees. It is now generally used by the Company to provide early retirement subsidized pensions or additional pensions to unionized employee. As at December 31, 2010, Plan A had a market value of approximately $12 million and a solvency deficit of approximately $3.2 million. The

Company made total contributions (including solvency payments) to Plan A of approximately $0.5 million in 2011. As at December 31, 2010, Plan A had a total of 401 members. No active employees are members of Plan A. As far as the Company is aware, Plan A currently includes eleven retired former or retired employees who reside outside of British Columbia. The retirees receive their payments from CIBC Mellon Trust Company, who acts as trustee.

77. All of the above deficits are calculated on the basis of current interest rates. A modest increase in market interest rates will significantly reduce the calculated deficits.

78. The Company intends to make all normal cost payments during the restructuring. At present, the normal cost payments are paid monthly in arrears and are included in the Cash Flow Forecast (defined below). The Company did make payments of $8,991,979 in 2011, including a special cost payment of $4,843,651 in December 2011. In addition the Company has made a special cost payment of approximately $2.7 million due on January 31, 2012 and such payment is included in the Cash Flow Forecast (defined below). The Company hopes to emerge from the CCAA process before a April 30, 2012 special costs payment is due.

79. Plan C was a plan put in place by a predecessor employer and is fully funded. As of December 31, 2010, this plan had a surplus of $179,000 on a solvency basis.

80. The Company's Canadian unionized employees are members of a union-sponsored, industry-wide pension plan to which Catalyst contributes a pre-determined amount per hour worked by an employee. The Company is not the administrator of this plan and has no unfunded obligations under it.

81. I understand that the Cash Flow Forecast (defined below) accounts for all normal payments and special payments in respect of the above pension plans that the Company may be required to pay during the period covered by the Cash Flow Forecast.

82. To date, the Company has taken no steps to wind up any of its registered or unregistered pension plans. Currently, the Company does not intend to wind up any of its registered pension plans through the CCAA process.

Unregistered Benefits and Plans

83. The Company is obliged to pay individual supplementary amounts to former executives who retired with entitlements under the supplemental plan of a predecessor company. The Company pays approximately $10,000 per month maintaining this plan. As of December 31, 2010 the unfunded liability was actuarially calculated as $564,000.

84. The Company also administers the Catalyst Paper Corporation Supplementary Retirement Plan for Former Pacifica Papers Inc. Employees, which the Company also pays approximately $10,000 per month to maintain. As of December 31, 2010, the unfunded liability was actuarially calculated at $1,817,000.

85. Catalyst also maintains a supplemental retirement plan for senior executives, which had a deficit of $17.1 million as of December 31, 2010. This plan is unfunded but secured by a letter of credit held by CIBC Mellon Trust pursuant to a trust agreement that requires CIBC Mellon Trust to call the letter of credit on the first knowledge of insolvency. This is the only unregistered pension plan with a security feature.

86. In 2011, the Company made final payments covering its obligations with respect to winding up an American employees' defined benefit pension plan.

87. The Company also maintains an unregistered bridge benefit arrangement for former Canadian hourly employees that, due to early retirement, are not covered by union pension plans. As at December 31, 2010, the obligation under this arrangement was approximately $50.3 million. The Company paid approximately $5.9 million in payments to beneficiaries under this arrangement in 2011.

Pension Committee

88. Catalyst has taken proactive measures to ensure that its pension administrative committee (the "**Pension Committee**") can meet the Company's duties in respect of the members and other beneficiaries of the Company's registered pension plans in the event of a CCAA filing, even if it means taking positions adverse to the Company. The Company will remain the administrator of

the registered pension plans unless the B.C. Superintendent of Pensions appoints the Pension Committee or another body as administrator in its place. The Company intends to fulfill the duties of the administrator, to the standard of a fiduciary, through the appointment, maintenance and empowerment of the Pension Committee to perform them on its behalf.

89. Catalyst's Pension Committee consists of several members of company management and outside appointees. It does not contain of any members of Senior Management, or any other individual who would be directing the affairs of the Company in the event of a CCAA filing.. This measure was implemented in the Fall of 2011 in order to avoid conflicts of interest between Catalyst's role as a pension plan administrator and Senior Management's role in managing the Company through financial difficulty. Prior to the announcement of the Company's filing for CCAA protection today, to my knowledge, no member of the Pension Committee is aware of the Company's intentions to file this Petition for protection pursuant to the CCAA a this time. It is likely that the fact that discussions are ongoing with the Representative 2016 Noteholders and the Representative 2014 Noteholders has come to the attention of some members of the Pension Committee because representatives of certain financial advisors and lenders have met with Senior Management at the Company's head office and as a result of recent press releases concerning the RSA (defined below) and the CBCA court filing.

90. I understand that this Affidavit and other materials will be served upon the Pension Committee, FICOM, CIBC Mellon Trust and Bill Sharkey (as president of the Catalyst TimberWest Retired Salaried Employees Association) so that the pension beneficiaries receive notice of these proceedings. These individuals and entities are the principal stakeholders, or represent the principal stakeholders, of the Company's pension plans. Notice of these CCAA proceedings may also be placed in local and national newspapers.

91. In the event of a CCAA filing, Catalyst, through a resolution of the board of directors of CPC, will grant the Pension Committee full administrative powers over the pension plans, including the powers to retain counsel and, if the Pension Committee considers it necessary, to take positions adverse to those of Senior Management. The Company is prepared to fund legal fees on behalf of the Pension Committee on the basis that the Pension Committee is found by

this Court to be the appropriate body to represent all the beneficiaries of the Company's pension plans. The terms of reference granting the Pension Committee full administrative powers also contemplate that the Company may request that the B.C. Superintendent of Pensions recommend to the Minister of Finance that the Pension Committee be formally named the administrator of the registered plans.

92. The retirees under Catalyst's pension plans reside in various jurisdictions throughout British Columbia and elsewhere in Canada including Vancouver, Prince George, Nanaimo and Victoria. Many of these individuals are represented by a group known as the Catalyst TimberWest Retired Salaried Employees Association (the "**Salaried Pension Association**") with Mr. Sharkey acting as President. I am aware that, in the past, Mr. Sharkey has sent correspondence to the Company and made submissions to FICOM on behalf of the Salaried Pension Association.

The Financial Position of the Company

93. The Company's financial reporting is done on a consolidated basis. Attached as **Exhibit "F"** is a copy of the Company's audited consolidated financial statements for the year ending December 31, 2010. Attached as **Exhibit "G"** is a copy of the Company's interim consolidated financial statements for the nine months ending September 30, 2011.

Assets

94. As of September 30, 2011, the Company had total consolidated assets with a net book value of approximately $1,450.2 million (a decrease from $1,696.2 million as at December 31, 2010 and $2,090.8 million as at December 31, 2009). This included consolidated current assets of $340.7 million and consolidated non-current assets of $1,109.5 million.

95. As of September 30, 2011, the consolidated book value of the Company's current assets consisted of the following:

(a) Cash and cash equivalents: $17.8 million;

(b) Accounts receivable: $156.0 million;

(c) Inventories: $142.4 million; and

(d) Prepaids and other: $24.5 million.

96. As of September 30, 2011, the Company's consolidated non-current assets consisted of the following:

(a) Property, plant and equipment: $1,082.9 million; and

(b) Other assets: $26.6 million.

97. Catalyst owns several significant properties in Canada and the United States. Three of the Canadian properties are the lands and facilities associated with mills that are operating. One operation which has been permanently closed, the Elk Falls Mill, is also on property currently owned by the Company. Catalyst also leases several properties in Canada and the United States including the space for its head office in Richmond, an office in Nanaimo, the Recycling Facility and the Distribution Centre. As of the date of this Affidavit, the Company is not in arrears with respect to its property taxes. Attached as **Exhibit "H"** is a table listing the real properties owned and leased by the Company.

Liabilities

98. As of September 30, 2011, the Company had total consolidated liabilities with a net book value of approximately $1,314.6 million (an increase from $1,292.8 million as at December 31, 2010 and $1,295.2 million as at December 31, 2009). This included consolidated current liabilities of $178.7 million and consolidated non-current assets of $1,135.9 million.

99. As of September 30, 2011, the Company's consolidated current liabilities consisted of the following:

(a) Accounts payable and accrued liabilities: $177.7 million; and

(b) Current portion of long-term debt: $1.0 million.

100. As of September 30, 2011, the Company's consolidated non-current liabilities consisted of the following:

(a) Long-term debt: $840.1 million;

(b) Post-retirement employee benefits and pension obligations: $263.9 million;

(c) Other long-term obligations: $17.9 million;

(d) Future income taxes: $4.4 million; and

(e) Deferred credits: $9.6 million.

101. Although the long-term debt and employee future benefits are categorized as non-current, they are significant burdens preventing the Company from operating on a going concern basis as discussed above.

Restructuring Efforts to Date

102. Catalyst has faced increasingly challenging business conditions as the demand for, and price of its principal product – mechanical printing papers – has experienced declines amplified by the effect of uncertain financial markets and the recent economic downturn.

103. Catalyst is currently facing financial difficulties because it lacks adequate liquidity to satisfy long-term debt obligations. The Senior Management has considered and pursued a wide variety of cost-reduction, financing and cash generation alternatives in an effort to address these short and long-term liquidity issues and address the capital structure concerns.

104. Catalyst has solicited and pursued a wide variety of alternative cost-reduction, restructuring, financing and strategic alternatives. These initiatives included:

(a) reducing fixed and operational costs across all mills;

(b) reduced corporate staff and salaried employee benefits;

(c) improving its product mix;

(d) selective investment in capital projects with short pay-back periods;

(e) closing the Elk Falls Mill in July 2010 after curtailing its production as of February 2009;

(f) closing the Recycling Facility in July 2010, which had been idled since February 2010 and is now surplus to its requirements;

(g) restructuring the ABL Facility by amending it to address the reduced working capital levels resulting from the above closures and to remove the fixed assets of the Snowflake Mill from the borrowing base;

(h) made numerous attempts to renegotiate competitive collective agreements with the Canadian unions;

(i) formal and informal discussions with strategic investors concerning the reorganization of the Company's corporate and capital structure; and

(j) ongoing discussions with the Representative 2014 Noteholders and Representative 2016 Noteholders.

105. In October 2011, the Petitioner Parties retained Perella Weinberg Partners LP ("**Perella**") as financial advisor and they, along with the Company's other advisors, have provided significant assistance to the Company in developing a Plan to present to the Company's affected creditors. The Company believes that it is important to the Company's restructuring efforts that the Company continue its engagement of Perella.

106. Catalyst has engaged in extensive negotiations with certain of their stakeholders in an effort to address its challenges. These negotiations have failed to culminate in a viable alternative to a CCAA court-protected restructuring at this time. However, discussions continue and there is a reasonable prospect that a restructuring agreement can be reached in the near term.

The CBCA Court Filing

107. As outlined in the Petition, on January 17, 2012 Catalyst 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 "**RSA**").

108. The RSA automatically terminates if: (a) by January 31, 2012 holders of at least 66 2/3% of the outstanding principal amount of both the 2016 Notes and 2014 Notes have not executed the RSA or one or more joinder agreements; or (b) if by January 31, 2012 either of the Pulp, Paper and Woodworkers of Canada and the Communication, Energy and Paperworkers Union of Canada, shall not have ratified new labour agreements in respect of Catalyst's three B.C. mills.

109. Neither of the above conditions have been satisfied and, accordingly, it is expected that the RSA will terminate.

Requirement for CCAA Protection

110. Having regard to its financial circumstances, Catalyst has determined that it is necessary to seek protection under the CCAA in order to preserve enterprise value and continue going concern operations as these discussions are pursued. In addition, Catalyst seeks to continue operational restructuring alternatives while under CCAA protection, including disclaiming certain contracts, reducing or restructuring its obligations, and reducing operating costs. Any such restructuring alternative will be undertaken for the purpose of further enhancing Catalyst's long-term financial health, liquidity and competitiveness.

Relief Sought

111. Over the course of the past several months, the Company has made good faith efforts to restructure its capital and address its liquidity position outside of an insolvency proceeding. During that time, Catalyst's liquidity position has continued to deteriorate. The large degree of uncertainty, including insurmountable legal and business impediments, and the lack of available liquidity required to finance the extensions have made it impossible to implement its recapitalization outside of a Court process.

Defaults, Waiver and Stay of Proceedings

112. As set out above, on December 15, 2011, the Company deferred an interest payment of US$21 million on the 2016 Notes. The Company had until January 17, 2012 to pay this amount before triggering an event of default. An event of default would allow the holders of the 2016 Notes to declare the US$390 million principal amount and all accrued interest on the 2016 Notes immediately due and payable and to begin proceedings to realize upon the security held in connection with the 2016 Notes. Pursuant to the terms of the RSA, each consenting noteholder agreed that unless the RSA was terminated it would not exercise any right or remedy for the enforcement, collection, acceleration or recovery of any of the 2016 Notes or 2014 Notes that was materially inconsistent with the term sheet attached to the RSA. As a result of the RSA, the

interest payment of US$21 million in respect of the 2016 Notes was not required to be paid by January 17, 2012.

113. The Credit Agreement under the ABL Facility provides that it is an "**Event of Default**" to fail to make any payment of principal or interest, regardless of amount, in respect of any Material Indebtedness, when such a failure continues after the applicable grace period specified. A default or failure to pay an accelerated debt or an interest payment under either of the 2016 Indentures or the 2014 Indenture would arguably amount to an Event of Default under the ABL Facility.

114. If an Event of Default occurs under the ABL Facility, the ABL Facility may be terminated or other remedies may be exercised. On or about January 16, 2012, the Petitioner Parties entered into a waiver agreement whereby the ABL Lenders agreed to waive and forbear with respect to events of default in respect of the CBCA Court Filing and the non-payment of interest under the 2016 Indenture, until January 31, 2012.

115. As set out in greater detail in paragraph 85 of the Petition, the Company has experienced trade compression as a result of its restructuring steps. The trade creditor pressures described above increased materially yesterday. Notwithstanding a stay of proceedings order under the CBCA proceedings, the Company received numerous calls and communications from numerous suppliers refusing continued supply without cash or advance cash payments. The stay order under the CBCA is not a familiar order to the Company's suppliers and it has not proven to be effective in dealing with supplier issues, despite the fact that the Company has paid supplier accounts on existing credit terms. The reaction of the suppliers followed the news of a negative ratification vote by the Pulp, Paper and Woodworkers of Canada, Local 8. The termination of the RSA will, in my view, increase trade creditor pressure even more. The Company cannot continue stable operations without the protection of a CCAA order.

116. The Company requires a stay of proceedings under the CCAA to ensure that it can complete its restructuring without defending itself from any proceedings brought by the holders of the 2016 Notes or other creditors.

117. The Petitioner Parties are concerned that, in light of declining revenues and the current liquidity challenges at Catalyst, an uncontrolled material adverse change to the Company's business could further erode its enterprise value to the detriment of all stakeholders. The Petitioner Parties therefore require a stay of proceedings and other protections provided by the CCAA to restructure their affairs and pursue reorganization through a Plan. In particular, the Petitioner Parties require a stay of proceedings to prevent creditors from making demands or terminating contracts. Any significant demand would likely result in the cessation of going concern operations for the Petitioner Parties absent a stay of proceedings. Contract termination would impair the Company's ongoing revenue stream. The Petitioner Parties are requesting an initial stay of proceedings until February 14, 2012.

The Proposed Monitor

118. PwC was retained by the Company in late October 2011 with a view to acting as Monitor in the event of a CCAA filing and to assist the Company in both understanding the CCAA process and in preparing for a CCAA filing in the event that a filing should become necessary. In the course of fulfilling its mandate, PwC has become familiar with the business and its current financial challenges. PwC has been aware of the potential of a CCAA filing and I am advised by Michael Vermette of PwC that PwC has maintained its independence so that it can properly execute its duties as Monitor. Subject to court approval, PwC has consented to act as the Monitor of the Petitioner Parties in this CCAA proceeding and in my view it is a fit and proper organization to do so.

119. At no time in the past two years has PwC or any of its partners or managers been the Company's auditor, accountant or employee of the auditor or accountant of the Company. PwC is independent from the Company's financial advisor.

120. Currently and for the past two years, neither PwC nor any of its partners or managers is a director, officer or employee of the Company or related to the Company or to any former director or officer of the Company.

121. Furthermore, PwC is not a trustee under a trust indenture issued by the Company or any person related to the Company, and is not a holder of a power of attorney granted by the Company or by any person related to the Company. PwC is not related to a trustee or holder of a power of attorney noted above.

Cash Flow Forecast

122. The Company, with the assistance of the Proposed Monitor, has prepared a cash flow forecast through April 30, 2012 (the "**Cash Flow Forecast**"). Attached as **Exhibit "I"** is a copy of the Cash Flow Forecast.

123. As set out in the Cash Flow Forecast, the Company's principal uses of cash during the next thirteen weeks will consist of the payment of ongoing costs of day to day operations and professional fees and disbursements in connection with these CCAA proceedings.

Interim Financing

124. Because of the current liquidity challenges, and as demonstrated in the Cash Flow Forecast, the Petitioner Parties require interim financing to implement the restructuring alternatives and to continue operations. Catalyst will require funding beyond its own cash resources to fund operations during the proceedings, otherwise the Company may be forced into bankruptcy. Interim financing will enhance the prospects of the Company negotiating a viable Plan.

125. As previously stated, the ABL Facility is a $175 million facility. The Company considers that it is appropriate to have the same level of financing available to it while under the CCAA process to ensure all creditors are provided the comfort of knowing that the Company's financial resources are not impaired by this filing. It is necessary for the Company to have the full amount available in order to deal with any potential unforeseen adverse circumstances or a proceeding lengthier than forecast or desirable.

126. It is anticipated that Catalyst will require debtor in possession financing in the amount of $175 million (the "**DIP Financing**") to allow payment of financial obligations during the period

of the stay, including obligations to employees and trade creditors, as well as to allow the Company to properly retain both the Proposed Monitor and legal counsel to advise in relation to restructuring options.

127. The Company was offered DIP Financing from the same lenders as the ABL Facility on comparable terms. As a result, Catalyst did not canvas the market for other potential lenders. Because the offer from the DIP Lenders (defined below) did not require any alteration of the Company's accounts and included similar terms to the use of the ABL Facility, including the full flexibility of the letters of credit, the Company was of the opinion that there was no commercial logical advantage to pursuing other arrangements for DIP Financing. Any other offer would have required a great deal of expense to pursue, could have required a new cash management system and would have had to deal with the security granted under the ABL Facility.

128. Subject to certain conditions, including the granting of the requested Initial Order, Catalyst has negotiated a debtor in possession credit agreement ("**DIP Credit Agreement**") with various lenders (the "**DIP Lenders**") through JPMorgan as Administrative Agent (the "**DIP Agent**"), whereby the DIP Lenders agree to provide the Company with an interim financing facility (the "**DIP Facility**"). Catalyst and the DIP Lenders have agreed to the material terms pursuant to which the DIP Facility will be made available; however, the actual DIP Credit Agreement is still being finalized.

129. In connection with the DIP Credit Agreement, the Company and the DIP Agent have executed a commitment letter with an attached term sheet setting out the terms and conditions that will be encapsulated in the DIP Credit Agreement (the "**Commitment Letter**"). Attached as **Exhibit "J"** is an executed copy of the Commitment Letter.

130. The Company has agreed to certain terms and conditions with the DIP Agent for their services by way of letter (the "**Fee Letter**"). The Fee Letter is attached as an exhibit to a second affidavit that I have affirmed in this proceeding (the "**Second Affidavit**") to be filed under seal and kept confidential. The nature of the information contained in the Fee Letter is sensitive and confidential to both the Company and the DIP Agent. Those documents disclose certain confidential and sensitive details concerning the Company's assets and the Company's

arrangement with the DIP Lenders and the DIP Agent. As part of the restructuring, the Company may seek certain recapitalizations. Any prospective investors may use the details in the Fee Letter to provide them with leverage in their negotiations with the Company for more attractive terms. As such, disclosure of the Fee Letter, as part of the public record, may negatively affect the Company's ability to pursue some of its strategic options in its restructuring efforts, to the detriment of the Company and all of its stakeholders.

131. For these reasons and others explained later in this Affidavit, the Company seeks an Order sealing the Second Affidavit

132. The DIP Facility provides revolving line of credit lending services to the Company together with services related to the Company's requirement to issue letters of credit, certain derivative arrangements related to currency exchange rates and other banking services.

133. The DIP Facility is proposed to be secured by a Court-ordered security interest, lien and charge (the "**DIP Lenders Charge**") on all of the present and future assets, property and undertaking of the Petitioner Parties (the "**Property**") that will secure all post-filing advances. The DIP Lenders Charge is to have priority over all other security interests, charges and liens other than the Permitted Priority Encumbrances (defined below).

134. The security granted by the Petitioner Parties in favour of the DIP Lenders pursuant to the DIP Facility will charge (i) all of the collateral charged by the security granted by the Petitioner Parties in favour of the ABL Lenders; and (ii) all other real and personal, tangible and intangible, assets of the Petitioner Parties other than any equity interests in certain joint ventures and certain assets of any such joint ventures. The DIP Lenders will have security over all of the assets of the Company but will only have a first priority charge over the property of the Petitioner Parties that the ABL Lenders had priority over as against the 2016 Noteholders and the property of the Petitioner Parties that is not charged by the 2016 Noteholders. The DIP Credit Agreement contains a concept of "**Permitted Priority Encumbrances**" to recognize that the priority of the DIP Lenders' security pursuant to the DIP Facility is subject to permitted prior encumbrances. Among the Permitted Priority Encumbrances are the Administrative Charge, the security granted to the 2016 Noteholders in respect of the non-current assets that had ranked in

priority to the ABL Facility, purchase money security interests to the extent of the principal obligations outstanding as at the date of the Initial Order, and deemed trusts arising under subsections 227(4) or (4.1) of the *Income Tax Act*, subsections 23(3) or (4) of the *Canada Pension Plan* or subsection 86(2) of the *Employment Insurance Act*, and certain other secured charges which are not sought to be the subject of the priority of the DIP Facility. Accordingly, it is my understanding that, except for the ABL Lenders, no existing secured creditor's interest is affected by the DIP Facility because the DIP Facility does not create a priority for the DIP Facility over any charge other than the priority that is already enjoyed by the ABL Lenders and creates a charge on assets which are not subject to an existing charge.

135. There is a specific provision of the DIP Credit Agreement that recognizes the priority for existing purchase money security interests over the DIP Lenders Charge.

136. The DIP Facility will also take priority over all pension claims, employee claims for unpaid wages and vacation pay, and all normal cost payment arrears, as well as the claims of the holders of the 2016 Notes over working capital assets and intellectual property.

137. I understand that the DIP Lenders are not willing to advance the DIP Facility without the requested priority, including this Court's confirmation of a priority over any deemed trust arising on the winding up of any pension plans for solvency deficiencies or arising from any provincially-created trust, lien or charge, and unless payment of all accounts receivable are used to first reduce or cash collateralize the ABL Facility.

138. The DIP Facility is arranged with the DIP Lenders so that there is an initial availability between the initial filing date of the Petition and the date that is on or before 58 days thereafter (the "**Initial Availability**"). The Initial Availability is an amount of the DIP Facility being made available to the Petitioner Parties that is less than the full $175 million of final availability and reflects the circumstances facing both the Company and the DIP Lenders of the need (1) to seek an initial DIP Order in Canada and the United States, (2) to have those orders confirmed by the court in confirmation hearing processes in both jurisdictions and (3) to continue operations while awaiting the expiry of any appeal periods from those confirming orders. It is the Company's

view that the amount reserved for Initial Availability will allow the Company to maintain business as usual until final availability.

139. Catalyst has obtained the consent of the ABL Lenders to obtain the DIP Financing. Because the DIP Agent is also the Petitioner Parties' senior secured creditor and the DIP Facility has the same priority relating to the 2016 Notes or the ABL Facility, the Petitioner Parties are of the view that there will be no prejudice to any existing secured creditor.

140. There are a variety of conditions to the Initial Availability pursuant to the DIP Facility including the following:

(a) the loan parties execute and deliver certain financing documentation including the DIP Credit Agreement;

(b) the Initial Order in this proceeding is made in a form and substance satisfactory to the Administrative Agent under the DIP Facility and that that Order contain a DIP Facility approval that approves advances under the Initial Availability, the granting of a DIP charge with the priority contemplated by the DIP Facility, the authorization of the DIP Lenders fees contemplated by the DIP Facility, and a provision authorizing the collection of accounts receivable first be applied to reduce or cash collateralize as applicable the pre-petition ABL outstanding amounts and amounts required to cash collateralize letters of credit issued pursuant to the ABL Facility if outstanding;

(c) approval of the Cash Flow Forecast; and

(d) removal of what is referred to as the US availability block (the reduction in availability related to current assets located in the United States) on the basis of the Company satisfying certain conditions related to those assets contained in the DIP Credit Agreement.

141. As can be noted from the Cash Flow Forecast:

- the total operating receipts exceeds the total operating disbursements over the thirteen (13) week period by $5.0 million; and

- the total net receipts (including non-operating disbursements) over the thirteen week period amounts to a deficit of $22.9 million.

142. The Cash Flow Forecast indicates that there will be a net draw on the DIP Facility of approximately $46.5 million by the week ending February 19, 2012 and $75.7 million at the end of the thirteen week period.

143. In accordance with the requirements of the DIP Credit Agreement, the Petitioner Parties will use accounts receivable to pay down or cash collateralize pre-filing obligations outstanding under the ABL Facility. As of December 31, 2011, the accounts receivable balance outstanding to the Company was approximately $135 million. The borrowers under the DIP Facility will make draws to fund, among other things, their working capital requirements. The Petitioner Parties will not use any advances under the DIP Facility to repay any indebtedness outstanding prior to the date of the commencement of this proceeding other than as sanctioned by this Court.

144. The Petitioner Parties propose that the Proposed Monitor will provide oversight and assistance and will report to the Court in respect of the Petitioner Parties' actual results relative to Cash Flow Forecast during this proceeding. Existing accounting procedures will provide the Proposed Monitor with the ability to track the flow of funds among the various Petitioner Parties.

145. The Petitioner Parties considered the best interests of all their stakeholders, including all pensioners and retirees, in securing the DIP Facility. The Company intends to continue making all normal cost payments and special payments under the pension plans, unless otherwise negotiated with the Pension Committee or approved by any plan resulting from this CCAA proceeding.

146. The Petitioner Parties are seeking approval of the proposed DIP Facility to accommodate their anticipated liquidity requirements during this CCAA proceeding. The proposed DIP Facility will provide additional assurances to the Petitioner Parties' creditors and other stakeholders that the Petitioner Parties will be able to continue going concern operations while pursuing the capital reorganization pursuant to the Plan.

The Administration Charge

147. PwC is prepared to act as Monitor during the CCAA proceeding and to assist the Company with preparation of cash flow projections and with all aspects in relation to a

restructuring pursuant to, and subject to, the terms of the Initial Order of the Court and the statutory provisions of the CCAA. If so directed by the Court, PwC is also prepared to monitor the operations of the Company, to provide direction and guidance to management during the CCAA restructuring period regarding the restructuring, and to generally assist the Company with the restructuring efforts.

148. The Company's solicitors, the Proposed Monitor, and the Proposed Monitor's solicitors are essential to the Company's restructuring. They have each advised that they are prepared to provide or continue professional services to the Company only if they are protected by a charge over the assets of the Company. Accordingly, the Company seeks to establish a priority charge over those assets in favour of its solicitors, the Proposed Monitor, and the Proposed Monitor's solicitors.

149. In connection with its appointment, it is contemplated that the Proposed Monitor, counsel to the Proposed Monitor, and counsel to the Company, will be granted a court ordered charge as security for their respective fees and disbursements relating to services rendered up to a maximum amount of $1,500,000 with the priority set out in the Initial Order. This amount has been determined not on the basis of the total fees payable to these professionals during the proceedings but on an assessment of what could be an amount outstanding to these professionals at any given time in the proceedings.

Director and Officer Protections

150. The current directors of CPC are: Thomas S. Chambers, Kevin J. Clarke, William F. Dickson, Benjamin C. Duster, IV, Douglas P. Hayhurst, Denis Jean, Jeffrey G. Marshall, Alan B. Miller, Geoffrey Plant, and M. Dallas H. Ross (collectively, the "**Directors**"). The current officers of CPC are Kevin J. Clarke, David L. Adderley, Steve Boniferro, Lyn Brown, Tom Crowley, Brian Johnston, Robert H. Lindstrom, Alistair MacCallum, Robert L. Stepusin and me (collectively, the "**Officers**").

151. Attached as **Exhibit "K"** is a list setting out the Directors and Officers along with the profiles of the Directors and members of Senior Management.

152. A successful restructuring of the Company will only be possible with continuity of the Directors as well as continuity in the make-up of the Officers. As described in Exhibit K, the Directors have significant experience with the Company and the pulp and paper industry and their continuity is essential to the Company's ongoing viability.

153. The Officers are equally important to the Company as they have specialized expertise and experience with the Company and the pulp and paper industry generally. Over time, the Officers have developed relationships with suppliers, employees and other stakeholders that will be important to the restructuring process. These relationships are not easily duplicated or replaced.

154. The Company will benefit from the experience and expertise of the Directors and Officers which will be invaluable in assisting the Company through the CCAA process.

155. It is my understanding that in certain circumstances directors and officers can be held personally liable for certain of a company's obligations to the federal and provincial governments, including with respect to payroll remittances, harmonized sales taxes, goods and services taxes, withholding taxes, workers compensation remittances, etc. Furthermore, I understand it may be possible for directors and officers of a corporation to be held personally liable for certain wage-related obligations to employees.

156. The Company maintains directors' and officers' liability insurance through six separate policies (the "**D&O Insurance**") for the Directors and Officers. The current D&O Insurance provides $100 million in coverage and expires on May 1, 2012.

157. In addition, there are also contractual indemnities which have been given by the Company to their Directors. On a cessation of going concern operations, the Company may not have sufficient funds to satisfy these indemnities should the Directors be found responsible for the full amount of the potential directors' liabilities.

158. The Directors have voiced significant concern with respect to potential personal liability if they continue in their current capacities. I am of the view that, in light of the potential for significant personal liability, some or perhaps all of the Directors will not continue their service

and involvement in the proposed restructuring unless the Initial Order grants a charge as security for the Company's obligations as described above.

159. I am advised by the Company's insurers, Chartis Insurance Company of Canada, Chubb Insurance Company of Canada, Liberty Mutual Insurance Company, Everest Insurance Company, Lloyd's Underwriters, and ACE INA Insurance, that if the Company was to file for CCAA protection, and if the insurers agreed to renew the D&O Insurance, there would be a significant increase in the premium for that insurance.

160. With the assistance of PwC, a calculation has been performed to estimate the quantum of the potential director and officer liabilities based on the number of employees, the Company's pay cycle and various other potential sources of personal liability such as source deductions and tax amounts. This amount could be in the range of approximately $31 million depending on certain assumptions.

161. The Company proposes that a charge in favour of the Directors and Officers be granted in the amount of $31 million (the "**D&O Charge**") to provide a reasonable level of protection to those directors and officers prepared to stay with the Company to see it through the CCAA process. The D&O Charge ensures that the Directors and the Officers will receive protection from liability if the D&O Insurance cannot be renewed due to an increase in premiums or if the Company cannot otherwise rely on the D&O Insurance. The Company believes that the amount of the D&O Charge is fair and reasonable in the circumstances and understands the Proposed Monitor is agreeable to the proposed amount of the D&O Charge and the priority of that charge as set out in the Initial Order.

162. The D&O Charge is vital to encouraging the continued participation in this CCAA proceeding of the Directors and Officers, who will provide necessary experience and stability to this process and guide the Company's restructuring efforts. It is critical that a level of continuity be maintained within the Company to ensure focus on achieving a restructuring plan that will benefit the Company's stakeholders. The D&O Charge will also provide significant assurances to the Company's employees that the payment of wages, vacation pay and other statutory

entitlements will be satisfied, as well as withholding and tax obligations owing to the federal and provincial or state authorities.

Key Employee Retention Program

163. The Company entered into a Key Employee Retention Program ("**KERP**") with its senior management team in the Fall of 2011. The Directors approved the KERP in principle on October 31, 2011 and approved the form of the retention and change in control agreements on November 14, 2011. The facts and details of the KERP were disclosed to the 2016 Noteholders and the 2014 Noteholders prior to the execution of the RSA.

164. The KERP provides incentives for Senior Management to continue to remain employed by the Company in the unusual circumstances that face these executives. The likely restructuring plan for the Company will involve an exchange of debt for equity such that new entities will own and control the Company in the foreseeable future. The Senior Management team then has been working to restructure the Company to ensure its continued viability in circumstances where their own continued employment is in jeopardy.

165. To ensure these key individuals remained to complete the restructuring, the KERP has been put in place. It provides for incentive payments to the covered employees who remain employed with the Company at the end of 2012 and further incentives for those who remain employed by the Company at the end of 2013. There are further provisions which entitle the covered employees to termination pay consistent with their existing contractual or common law entitlement if their employment is terminated after a change of control of the Company. These obligations are presently secured by letters of credit issued under the ABL Facility. The Order sought seeks the Court's permission to pay any entitlements to the covered employees which may become payable pursuant to the KERP during the period of these proceedings.

166. The full details of the KERP including contractual documents will be contained in the Second Affidavit which will be sought to be filed pursuant to a confidentiality order. It is neither the policy of the Company nor, from my understanding, companies generally to make the salaries of its employees publically known. Apart from privacy concerns of the employees who

are part of the KERP, such information would enable employers to attempt to outbid the Company for employees. Moreover, disclosure of the details of the KERP could create negative morale among the Company's other employees and may hamper the Company's bargaining with its employees.

167. The foregoing are additional reasons that the Company is seeking an Order that the Second Affidavit be filed under seal and kept confidential.

Requirement for Relief Requested

168. The Petitioner Parties are currently in a challenging financial position. After many years of success and growth, the Company has faced significant declines in sales. In spite of the efforts made over the past year and the strategic avenues pursued, the Company is no longer able to meet its financial obligations and requires the protections afforded by the CCAA while it seeks to restructure its affairs.

169. The Company is receiving numerous calls on a daily basis from stakeholders, including creditors, enquiring concerning payment in respect of outstanding obligations and making various other general inquiries about the financial condition of the Company. Many have required amended credit terms which have placed pressure on the Company's cash flow. As a result of these and other pressures, the business is vulnerable to creditors and suppliers taking actions detrimental to its viability.

170. The stakeholders in a Catalyst restructuring are numerous and varied and include Catalyst employees, creditors, customers, suppliers, and the municipalities in which Catalyst's mills are located. If the Petitioner Parties are forced to liquidate, other dependent supplier companies may also be forced to liquidate. Additionally, over 2,000 employees may face unemployment. It is therefore in the interests of individual and corporate stakeholders, as well as in the public interest, that the Petitioner Parties be permitted to restructure their affairs as contemplated.

171. The Company is optimistic that a restructuring of the business will have the effect of significantly improving its long-term financial prospects while preserving value and permitting it to continue to operate as a going concern beyond the period of creditor protection.

172. The Directors and Senior Management are committed to guiding the Company through a successful restructuring. Retaining the Directors and Senior Management will provide critical stability in these otherwise uncertain times for the Company. It is anticipated that this stability will bolster consumer and market confidence in Catalyst's viability and enable the Petitioner Parties to maintain orderly operations and existing customer relations as well as maximize enterprise value throughout the course of the restructuring. Catalyst believes that the best way to preserve enterprise value for Catalyst and its stakeholders is for the Initial Order to be granted and a restructuring to be pursued through a plan under the CCAA.

173. The Petitioner Parties require the relief sought on an urgent basis. It is imperative that all of Catalyst's stakeholders, including its employees, suppliers and customers, have confidence that the Petitioner Parties will have the opportunity to leverage their existing expertise and resources to execute a business plan restoring the Catalyst's profitability and positioning them to achieve future successes. The granting of the stay of proceedings, and the supervision of the Company's restructuring by this Court, will facilitate the implementation of the Catalyst's strategies for preserving the value of their business enterprise for the benefit of all stakeholders.

AFFIRMED BEFORE ME at Vancouver, British Columbia on January 31, 2012.

A Commissioner for taking Affidavits for British Columbia

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Brian Baarda

TAB 2

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

ORDER MADE AFTER APPLICATION

BEFORE THE HONOURABLE) 31/January/2012
MR JUSTICE SEWELL)

THE APPLICATION of the Petitioners coming on for hearing at Vancouver, British Columbia, on the 31st day of January, 2012 (the "**Order Date**"); AND ON HEARING, Bill Kaplan, Q.C., and Peter Rubin, counsel for the Petitioners, Peter Reardon, counsel for JPMorgan Chase Bank, N.A. ("**JPMorgan**") in its capacity as administrative agent under the DIP Credit Agreement (in such capacity, the "**DIP Agent**"), John Grieve and Kibben Jackson, counsel for the Proposed Monitor PricewaterhouseCoopers Inc. ("**PwC**"), and those other counsel listed in **Schedule "B"** hereto; AND UPON READING the material filed, including the First Affidavit of Brian Baarda

affirmed January 31, 2012 (the "**Baarda Affidavit**"), the Second Affidavit of Brian Baarda affirmed January 31, 2012, the Third Affidavit of Brian Baarda affirmed January 31, 2012, the First Affidavit of Jyotika Reddy affirmed January 31, 2012 and the consent of PwC to act as Monitor; AND UPON BEING ADVISED that the secured creditors and others who are likely to be affected by the charges created herein were given notice; AND pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36 as amended (the "**CCAA**"), the British Columbia Supreme Court Civil Rules and the inherent jurisdiction of this Honourable Court;

THIS COURT ORDERS AND DECLARES THAT:

JURISDICTION

1. The Petitioners are companies to which the CCAA applies. Catalyst Paper General Partnership, a general partnership (the "**Partnership**") and its Property (defined below) shall enjoy the benefits of the protections provided to the Petitioners, and shall be subject to the same restrictions as the Petitioners, under this Order (the Petitioners, together with the Partnership, collectively, the "**Petitioner Parties**").

SUBSEQUENT HEARING DATE

2. The hearing of the Petitioner Parties' application for an extension of the Stay Period (as defined in paragraph 19 of this Order) and for any ancillary relief shall be held at the Courthouse at 800 Smithe Street, Vancouver, British Columbia at 9:45a.m. on Tuesday, the 14th day of February, 2012 or such other date as this Court may order (the "**Comeback Hearing**").

PLAN OF ARRANGEMENT

3. The Petitioner Parties shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (the "**Plan**").

POSSESSION OF PROPERTY AND OPERATIONS

4. Subject to this Order and any further Order of this Court, the Petitioner Parties shall remain in possession and control of their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof and for greater certainty, the property of the Partnership (collectively, the "**Property**"), and continue to carry on their business (the "**Business**") in the ordinary course and in a manner consistent with the preservation of the Business and the Property. The Petitioner Parties shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively, "**Assistants**") currently retained or employed by them, with liberty to retain such further Assistants as they deem reasonably necessary or desirable in the ordinary course of business or for carrying out the terms of this Order.

5. The Petitioner Parties shall be entitled to continue to utilize the central cash management system currently in place as described in part in the Baarda Affidavit or, with the consent of the DIP Lenders (defined below), replace it with another substantially similar central cash management system including any modifications required in connection with the DIP Facility (defined below) (the "**Cash Management System**") and any present or future bank providing the Cash Management System: (i) shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the Petitioner Parties of funds transferred, paid, collected or otherwise dealt with in the Cash Management System; (ii) notwithstanding paragraph 24 of this Order, shall be entitled to provide the Cash Management System and exercise its permitted discretion to adjust such services pursuant to the terms of the documentation applicable to the Cash Management System without any liability to any Person (defined below) other than the Petitioner Parties arising from the making of this Order or the insolvency of the Petitioner Parties; and (iii) shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims that may arise or expenses it may suffer or incur in connection with the provision of the Cash Management System.

6. Subject to paragraph 46, immediately upon the Petitioner Parties' receipt thereof or otherwise in accordance with the Petitioner Parties' current practices, the Petitioner Parties are authorized and directed to remit to the DIP Agent all cash, monies and collection of accounts receivable and other book debts in their possession or control (collectively, "**Cash Receipts**") and all Cash Receipts so remitted shall be applied in accordance with the DIP Documents (defined below). The DIP Agent is hereby authorized to (i) on the date hereof and from time to time in accordance with the DIP Credit Agreement (defined below) send a notice to each bank and deposit-taking institution that is a party to a Blocked Account Agreement (as defined in the DIP Credit Agreement), as such agreements may be amended from time to time (each a "**Receivable Account Bank**") to commence a period during which the applicable Receivable Account Bank shall cease complying with any instructions originated by any applicable Petitioner Parties and shall comply with instructions originated by the DIP Agent as to dispositions of funds, without further consent of the applicable Petitioner Parties and until further notice from the DIP Agent, and (ii) apply (and allocate) the funds in each Blocked Account (as defined in the DIP Credit Agreement) pursuant to the DIP Credit Agreement and paragraphs 9, 10(d) and 10(e) of this Order without further order or approval of this Court. Each Receivable Account Bank is hereby authorized and directed to comply with any instructions originated by the DIP Agent on or after the Order Date directing disposition of funds, without further consent of the applicable Petitioner Parties or further order or approval of this Court. As of the Closing Date under the DIP Credit Agreement, each Blocked Account Agreement (defined in the ABL Facility, as defined below) will continue and remain in full force and effect, in each case substituting the DIP Agent for the Pre-Petition Agent under the ABL Facility (defined below) as the secured party thereunder. Notwithstanding any provision of this Order, pending the closing date of the DIP Credit Agreement, the Pre-Petition Agent shall be entitled to send notices to the following Receivables Account Banks in connection with specified accounts as agreed with the Petitioner Parties.

7. Subject to the terms, conditions and availability under the DIP Facility, the Petitioner Parties shall be entitled, but not required, to pay the following expenses which may have been incurred prior to the Order Date:

(a) all outstanding wages, salaries, employee and pension benefits (including long and short term disability payments), vacation pay and expenses (but excluding severance and termination pay) payable before or after the Order Date, in each case incurred in the ordinary course of business and consistent with the relevant compensation policies and arrangements existing at the time incurred (collectively "**Wages**");

(b) all amounts owing to or in respect of individuals working as independent contractors in connection with the Petitioner Parties' Business;

(c) the fees and disbursements of any Assistants retained or employed by the Petitioner Parties which are related to the Petitioner Parties' restructuring, at their standard rates and charges, including payment of the fees and disbursements of legal counsel retained by the Petitioner Parties and the Directors, whenever and wherever incurred, in respect of:

(i) these proceedings or any other similar proceedings in other jurisdictions in which the Petitioner Parties or any subsidiaries or affiliated companies of the Petitioner Parties are domiciled;

(ii) any litigation in which the Petitioners are named as a party or are otherwise involved, whether commenced before or after the Order Date; and

(iii) any related corporate matters;

(d) all amounts owing for goods and services actually supplied to the Petitioner Parties:

(i) by chemical suppliers, fibre suppliers, utility and fuel suppliers, old newspaper suppliers and other related products, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties

and the Monitor, the supplier is critical to the business and ongoing operations of any of the Petitioner Parties;

(ii) by freight and logistics suppliers, third party customs brokers, agents, freight carriers, freight forwarders, warehousemen, and shippers, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties and the Monitor, the party providing the good or service is critical to the business and ongoing operations of any of the Petitioner Parties; and

(iii) by other parties providing goods or services, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties and the Monitor, the supplier is critical to the business and ongoing operations of any of the Petitioner Parties;

(e) with the prior consent of the Monitor and the DIP Agent, all amounts owing to creditors who, prior to the date of this Order, lawfully retained Property or exercised possessory liens against Property;

(f) all amounts in respect of customer programs including, *inter alia*, rebates, adjustments, performance and volume discounts; and

(g) any amounts payable in respect of customs and duties.

8. The Petitioner Parties shall be subrogated to the rights of any creditor receiving a payment pursuant to paragraph 7(d), 7(e), 7(f) and 7(g) of this Order in the amount of the payment(s) (the total amount paid to each such party constituting a "**Critical Supplier Claim**"). Each such Critical Supplier Claim shall be deemed to be assigned to the Petitioner Parties for all purposes and the Petitioner Parties shall be entitled to vote the Critical Supplier Claims in any Plan.

9. Subject to paragraph 46, the Petitioner Parties, the Pre-Petition Agent (as defined below) and the DIP Agent are authorized and directed to first apply all pre-filing and post-filing accounts receivable proceeds and account receivable collections in permanent repayment of the Secured Obligations (as defined in the asset based loan facility amended and restated May 31, 2011 between the Petitioner Parties and JPMorgan, as agent for the lenders thereunder (the "**Pre-Petition Agent**") and the various lenders signatory thereto as further amended, modified or supplemented from time to time (the "**ABL Facility**")), and to cash collateralize all contingent obligations forming part of the Secured Obligations as required pursuant to the DIP Documents (defined below) and this Order, including any indemnification or payment obligations owing by the Petitioner Parties in connection with any Existing LCs (defined below) and any Existing Derivatives Transactions (defined below).

10. Subject to the terms and conditions of and availability under the DIP Facility (defined below) and except as otherwise provided herein, the Petitioner Parties shall be entitled but not required to pay all expenses reasonably incurred by the Petitioner Parties in carrying on the Business in the ordinary course following the Order Date, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

(a) all expenses and capital expenditures reasonably incurred and which are necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors' and officers' insurance), maintenance and security services, provided that any capital expenditure exceeding $1,000,000 shall be approved by the Monitor;

(b) all obligations incurred by the Petitioner Parties after the Order Date, including without limitation, with respect to goods and services actually supplied to the Petitioner Parties following the Order Date (including those under purchase orders outstanding at the Order Date but excluding any interest on the Petitioner Parties' obligations incurred prior to the Order Date);

(c) fees and disbursements of the kind referred to in paragraph 7(c) which may be incurred after the Order Date;

(d) the posting of additional cash collateral (the "**LC Cash Collateral**") into a LC Collateral Account (defined in the ABL Facility) established with the Pre-Petition Agent as required by Section 2.06(j) of the ABL Facility as additional and continuing security for the indemnification obligations owing by the Petitioner Parties in connection with existing letters of credit, letters of guarantee, surety bonds, and similar instruments comprising the LC Exposure (as defined in the ABL Facility) under the ABL Facility (collectively, "**Existing LCs**") that are not cancelled and replaced by a new letter of credit or other such instrument under the DIP Facility and for any foreign exchange losses incurred by any issuer of one or more of the Existing LCs and its correspondent banks, if any, under Existing LCs issued in currencies other than Canadian dollars or U.S. dollars;

(e) the posting of additional cash collateral (the "**Derivatives Cash Collateral**") into a cash collateral account established with the Pre-Petition Agent, in the name of the Pre-Petition Agent and for the benefit of the Derivatives Lenders (as defined in the ABL Facility) in an amount of the aggregate mark-to-market positions associated with all outstanding Derivatives Transactions (as defined in the ABL Facility), determined on a netted basis for each Derivatives Lender, as additional and continuing security for the Derivatives Secured Obligations (as defined under the ABL Facility) owing by the Petitioner Parties in connection with existing Derivatives Transactions not terminated on the Order Date (collectively, "**Existing Derivatives Transactions**"). The Pre-Petition Agent shall hold the Derivatives Cash Collateral as collateral for the payment and performance of the Derivatives Secured Obligations (as defined in the ABL Facility), and shall have exclusive dominion and control, including the exclusive right of withdrawal, over the Derivatives Collateral Account (as defined in the ABL Facility) and, subject to the terms of this Order, the remaining provisions of Section 2.06(j) of the ABL Facility shall apply to the Derivatives Collateral Account, mutatis mutandis, as if the references therein to "LC Collateral Account" were references to the "Derivatives Collateral Account", references to "LC Exposure" were references to "Derivatives Secured Obligations", and references therein to "Issuing Bank" and "Revolving Lenders" were references to the "Derivatives Lenders";

(f) payment of any indebtedness of the Petitioner Parties to the Issuing Bank (as defined in the ABL Facility) and the Lenders (as defined in the ABL Facility) when due in connection with LC Exposure under the ABL Facility by way of set-off and transfer of LC Cash Collateral posted as at the Order Date or posted thereafter as permitted under subparagraph (d) above; and

(g) payment of any indebtedness of the Petitioner Parties to the Derivatives Lenders (as defined in the ABL Facility) when due in connection with Derivatives Secured Obligations under the ABL Facility by way of set-off and transfer of Derivatives Cash Collateral posted as at the Order Date or posted thereafter as permitted under subparagraph (e) above.

11. Subject to further Order of the Court, the Petitioner Parties:

(a) are authorized and directed to remit, in accordance with legal requirements, or pay any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from Wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes or any such claims which are to be paid pursuant to Section 6(3) of the CCAA;

(b) are authorized to remit, in accordance with legal requirements, or pay all goods and services or other applicable sales taxes (collectively, "**Sales Taxes**") required to be remitted by the Petitioner Parties in connection with the sale of goods and services by the Petitioner Parties, but only where such Sales Taxes accrue or are collected after the Order Date, or where such Sales Taxes accrued or were collected prior to the Order Date but not required to be remitted until on or after the Order Date;

(c) are authorized and directed to remit, in accordance with legal requirements, or pay all employer normal cost contributions which, for greater certainty, excludes special payments (the **"Normal Cost Contributions"**) as required by the most

recently filed actuarial valuations in respect of any pension plans registered under the *Pensions Benefits Standards Act* (British Columbia) (the "**PBSA**") and maintained by the Petitioner Parties (collectively, the "**Pension Plans**"), whether such Normal Cost Contributions are in respect of periods prior to, on or after the date of this Order;

(d) are authorized to remit or pay the special payments referenced in the letter dated December 14, 2011 from the Financial Institutions Commissioner of British Columbia attached as Exhibit "F" to the Baarda Affidavit in respect of any pension plans registered under the PBSA and maintained by the Petitioner Parties, but in no event shall the Petitioner make any special or catch up payments on an accelerated basis without further Order of this Court on not less than 15 days notice to the DIP Agent; and

(e) are authorized to remit, in accordance with legal requirements, or pay any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal property taxes, municipal business taxes or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors.

12. Until such time as a real property lease is disclaimed in accordance with the CCAA, the Petitioner Parties shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable as rent to the landlord under the lease) based on the terms of existing lease arrangements or as otherwise may be negotiated between the Petitioner Parties and the landlord from time to time ("**Rent**"), for the period commencing from and including the Order Date, twice-monthly in equal payments on the first and fifteenth day of the month in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including Order Date shall also be paid.

13. Except as specifically permitted both by the Order and the DIP Documents (defined below), the Petitioner Parties are hereby directed, until further Order of this Court:

(a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Petitioner Parties to any of their creditors as of the Order Date;

(b) to make no payments in respect of any financing leases which create security interests;

(c) to grant no security interests, trusts, mortgages, liens, charges or encumbrances upon or in respect of any of its Property, nor borrow under or increase the principal amount secured by any existing security interests, trusts, mortgages, liens, charges or encumbrances upon or in respect of any of its Property nor become a guarantor or surety, nor otherwise become liable in any manner with respect to any other person or entity;

(d) to not grant credit except in the ordinary course of the Business only to its customers for goods and services actually supplied to those customers, provided such customers agree that there is no right of set-off in respect of amounts owing for such goods and services against any debt owing by the Petitioner Parties to such customers as of the Order Date; and

(e) to not incur liabilities except in the ordinary course of Business.

14. Notwithstanding any other provision in this Order, (a) no Issuing Bank shall be required to renew an Existing LC or issue any new letter of credit under the ABL Facility to the Petitioner Parties at the request or for the account of any of them and are hereby authorized to issue any required notices of non-renewal and (b) no DIP Lender shall be required to enter into a hedging agreement or any other eligible financial contract or provide any new banking or cash management services with any of the Petitioner Parties.

RESTRUCTURING

15. Subject to such requirements as are imposed by the CCAA and such covenants as may be contained in the DIP Documents (defined below), the Petitioner Parties shall have the right to:

(a) permanently or temporarily cease, downsize or shut down all or any part of its Business or operations and commence marketing efforts in respect of any of its redundant or non-material assets and to dispose of redundant or non-material assets not exceeding $500,000 in any one transaction or $2,000,000 in the aggregate;

(b) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate; and

(c) pursue all avenues of refinancing for its Business or Property, in whole or part;

all of the foregoing to permit the Petitioner Parties to proceed with an orderly restructuring of the Business (the "**Restructuring**").

16. The Petitioner Parties shall provide each of the relevant landlords with notice of the Petitioner Parties' intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Petitioner Parties' entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors who claim a security interest in the fixtures, such landlord and the Petitioner Parties, or by further Order of this Court upon application by the Petitioner Parties, the landlord or the applicable secured creditors on at least two (2) clear days' notice to the other parties. If the Petitioner Parties disclaim the lease governing such leased premises in accordance with Section 32 of the CCAA, they shall not be required to pay Rent under such lease pending resolution of any dispute concerning such fixtures (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer of the lease shall be without prejudice to the Petitioner Parties' claim to the fixtures in dispute.

17. If a notice of disclaimer is delivered pursuant to Section 32 of the CCAA, then: (a) during the period prior to the effective time of the disclaimer, the landlord may show the affected leased premises to prospective tenants during normal business hours on giving the Petitioner Parties and the Monitor 24 hours' prior written notice; and (b) at the effective time of the disclaimer, the landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims the landlord may have against any Petitioner Party, or any other rights the landlord might have, in respect of such lease or leased premises and the landlord shall be entitled to notify the Petitioner Parties of the basis on which it is taking possession and gain possession of and re-lease such leased premises to any third party or parties on such terms as the landlord considers advisable, provided that nothing herein shall relieve the landlord of its obligation to mitigate any damages claimed in connection therewith.

18. Pursuant to Section 7(3)(c) of the *Personal Information Protection and Electronics Documents Act*, S.C. 2000, c. 5 and Section 18(1)(o) of the *Personal Information Protection Act*, S.B.C. 2003, c. 63, and any regulations promulgated under authority of either Act, as applicable (the "**Relevant Enactment**"), the Petitioner Parties, in the course of these proceedings, are permitted to, and hereby shall, disclose personal information of identifiable individuals in its possession or control to stakeholders, its advisors, prospective investors, financiers, buyers or strategic partners (collectively, "**Third Parties**"), but only to the extent desirable or required to negotiate and complete the Restructuring or to prepare and implement the Plan or transactions for that purpose; provided that the Third Parties to whom such personal information is disclosed enter into confidentiality agreements with the Petitioner Parties binding them in the same manner and to the same extent with respect to the collection, use and disclosure of that information as if they were an organization as defined under the Relevant Enactment, and limiting the use of such information to the extent desirable or required to negotiate or complete the Restructuring or to prepare and implement the Plan or transactions for that purpose, and attorning to the jurisdiction of this Court for the purposes of that agreement. Upon the completion of the use of personal information for the limited purposes set out herein, the Third Parties shall return the personal information to the Petitioner Parties or destroy it. If the Third Parties acquire personal information as part of the Restructuring or the preparation and implementation of the Plan or transactions in furtherance thereof, such Third Parties may, subject to this paragraph and any

Relevant Enactment, continue to use the personal information in a manner which is in all respects identical to the prior use thereof by the Petitioner Parties.

STAY OF PROCEEDINGS, RIGHTS AND REMEDIES

19. 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.

20. During the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "**Persons**" and each being a "**Person**") against or in respect of the Petitioner Parties or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Petitioner Parties and the Monitor or leave of this Court.

21. Nothing in this Order, including paragraphs 19 and 20, shall: (i) empower any one of the Petitioner Parties to carry on any business which that Petitioner Party is not lawfully entitled to carry on; (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA; (iii) prevent the filing of any registration to preserve or perfect a mortgage, charge or security interest (subject to the provisions of Section 39 of the CCAA relating to the priority of statutory Crown securities); or (iv) prevent the registration or filing of a lien or claim for lien or the commencement of a Proceeding to protect lien or other rights that might otherwise be barred or extinguished by the effluxion of time, provided that no further step shall be taken in respect of such lien, claim for lien or Proceeding except for service of the initiating documentation on the Petitioner Parties.

NO INTERFERENCE WITH RIGHTS

22. During the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Petitioner Parties, except with the written consent of the Petitioner Parties and the Monitor or leave of this Court. Nothing in this Order shall stay or prohibit a DIP Lender that has entered into a hedging agreement or other eligible financial contract, whether before, on or after the date of this Order, with any of the Petitioner Parties from terminating such agreement or contract in accordance with its terms.

CONTINUATION OF SERVICES

23. 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.

NON-DEROGATION OF RIGHTS

24. Notwithstanding any provision of this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of leased or licensed property or other

valuable consideration provided on or after the Order Date, nor shall any Person be under any obligation to advance or re-advance any monies or otherwise extend any credit to the Petitioner Parties on or after the Order Date. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

25. During the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against the directors or officers of the Petitioner Parties with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Petitioner Parties whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the Petitioner Parties, if one is filed, is sanctioned by this Court or is refused by the creditors of the Petitioner Parties or this Court. Nothing in this Order, including in this paragraph, shall prevent the commencement of a Proceeding to preserve any claim against a director or officer of the Petitioner Parties that might otherwise be barred or extinguished by the effluxion of time, provided that no further step shall be taken in respect of such Proceeding except for service of the initiating documentation on the applicable director or officer.

DIRECTORS AND OFFICERS INDEMNIFICATION AND CHARGE

26. The Petitioner Parties shall indemnify their directors and officers against obligations and liabilities that they may incur as directors or officers of the Petitioner Parties after the commencement of the within proceedings, except to the extent that, with respect to any director or officer, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

27. The directors and officers of the Petitioners shall be entitled to the benefit of and are hereby granted a charge (the "**D&O Charge**") on the Charged Property (defined below), which charge shall not exceed the aggregate amount of $31,000,000, as security for the indemnity

provided in paragraph 26 of this Order. The D&O Charge shall have the priority set out in paragraphs 49, 50, 52 and 53 herein.

28. Notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the D&O Charge, and (b) the Petitioners' directors and officers shall only be entitled to the benefit of the D&O Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 26 of this Order.

APPOINTMENT OF MONITOR

29. PwC is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Petitioner Parties with the powers and obligations set out in the CCAA or set forth herein, and that the Petitioner Parties and their shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Petitioner Parties pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

30. The Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

(a) monitor the Petitioner Parties' receipts and disbursements;

(b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;

(c) assist the Petitioner Parties, to the extent required by the Petitioner Parties, in their dissemination to the DIP Lenders and their counsel, financial and other information as agreed to between the Petitioner Parties and the DIP Lenders

which may be used in these proceedings including reporting on a basis to be agreed on with the DIP Lenders;

(d) advise the Petitioner Parties in their preparation of the Petitioner Parties' cash flow statements and reporting required by the DIP Lenders, which information shall be reviewed with the Monitor and delivered to the DIP Lenders and their counsel on a periodic basis as agreed to by the DIP Lenders;

(e) advise the Petitioner Parties in their development of the Plan and any amendments to the Plan;

(f) assist the Petitioner Parties, to the extent required by the Petitioner Parties, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;

(g) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Petitioner Parties, to the extent that is necessary to adequately assess the Petitioner Parties' business and financial affairs or to perform their duties arising under this Order;

(h) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;

(i) hold funds in trust or in escrow, to the extent required, to facilitate settlements or other transactions between the Petitioner Parties and any other Person; and

(j) perform such other duties as are required by this Order or by this Court from time to time.

31. The Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, or by inadvertence in relation to the due exercise of powers or performance of duties under this Order, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof, and nothing in this Order shall be construed as resulting in the Monitor being an employer or a successor employer, within the meaning of any statute, regulation or rule of law or equity, for any purpose whatsoever.

32. Nothing herein contained shall require or allow the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Fisheries Act*, the British Columbia *Environmental Management Act*, the British Columbia *Fish Protection Act* and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. For greater certainty, the Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

33. The Monitor shall provide any creditor of the Petitioner Parties and the DIP Lenders with information provided by the Petitioner Parties in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Petitioner Parties is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Petitioner Parties may agree.

34. In addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the rights and protections afforded the Monitor by the CCAA or any applicable legislation.

ADMINISTRATION CHARGE

35. The Monitor, Canadian and U.S. counsel to the Monitor, and Canadian and U.S. counsel to the Petitioner Parties and the Directors, including the separate counsel acting for the Petitioner Parties in connection with the DIP Credit Facility and the DIP Credit Agreement, shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Petitioner Parties as part of the cost of these proceedings. The Petitioner Parties are hereby authorized and directed to pay the accounts of the Monitor, counsel to the Monitor and such Canadian and U.S. counsel to the Petitioner Parties on a periodic basis and, in addition, the Petitioner Parties are hereby authorized to pay to the Monitor, counsel to the Monitor, and such counsel to the Petitioner Parties, retainers in the aggregate amount of $350,000 to be held by them as security for payment of their respective fees and disbursements outstanding from time to time.

36. The Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the British Columbia Supreme Court and may be heard on a summary basis.

37. The Monitor, counsel to the Monitor, and counsel to the Petitioner Parties and the Directors shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on the Property other than Excluded JV Interests (as defined below) (the "**Charged Property**"), which charge shall not exceed an aggregate amount of $1,500,000, as security for their respective fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, both before and after the making of this Order which are related to the Petitioner Parties' restructuring. The Monitor, counsel to the Monitor and counsel to the Petitioner Parties shall be required to provide the Monitor with bi-weekly updates regarding the

unpaid amounts owing to them which are secured by the Administration Charge. The Administration Charge shall have the priority set out in paragraphs 49, 50, 52 and 53 herein. "**Excluded JV Interests**" means: (a) the Petitioner Parties' equity interests in Powell River Energy Inc. and Powell River Energy Limited Partnership and other equity interests in joint ventures with non-Loan Parties (collectively, together with Powell River Energy Inc. and Powell River Energy Limited Partnership, the "**JVs**"), and (b) assets of any such JVs (or any interest therein) held by a Loan Party as nominee for any such JV or any party thereto or as tenant in common with any non-Loan Party, except to the extent the property described in (b) above may become charged pursuant to the terms of the DIP Credit Agreement.

SALE OF NOTES FIRST LIEN COLLATERAL

38. If any of the Notes First Lien Collateral (as defined in **Schedule "C"** hereto) is sold, the proceeds of any such Notes First Lien Collateral will be deposited into one or more deposit accounts or securities accounts established by and under the sole dominion and control of Computershare Trust Company of Canada, in its capacity as collateral trustee for itself and the 2016 Noteholders (in such capacity, the "**Collateral Trustee**") (each such account, a "**Noteholder Proceeds Collateral Account**") whereupon, and subject to the provisions of this Order and the Charges (as defined below), such proceeds may be used, applied and otherwise dealt with by the Collateral Trustee, Catalyst Paper Corporation or other applicable Petitioner Party, as applicable, to the extent permitted by the terms of the Indenture dated as of May 19, 2010 as among Catalyst Paper Corporation, Wilmington Trust FSB and Computershare Trust Corporation of Canada ("**2016 Note Indenture**") under which certain notes ("**2016 Notes**") are issued. Each such Noteholder Proceeds Collateral Account shall constitute Notes First Lien Collateral.

DIP FINANCING

39. Subject to paragraph 62 of this Order, the Petitioner Parties are hereby authorized and empowered to obtain and borrow and reborrow (and obtain the issuance of letters of credit and other financial accommodations) under a credit facility (the "**DIP Facility**") to be made available by the DIP Agent as DIP Agent and as lender and LC Issuer and the other lenders from time to

time party to the DIP Credit Agreement (together the "**DIP Lenders**") in order to finance the Petitioner Parties' working capital requirements, continuation of the Business, preservation of the Property, and other general corporate purposes provided that the aggregate principal amount outstanding (plus the face amount of any letters of credit issued under the DIP Facility) shall not exceed the lesser of $175,000,000 and the aggregate maximum amount permitted pursuant to the terms of the DIP Credit Agreement (as defined below) ("**Final Availability**").

40. The DIP Facility shall be available substantially on the terms and subject to the conditions set forth in the Commitment Letter attached as Exhibit "J" to the Baarda Affidavit (the "**DIP Commitment Letter**"), as the terms of the DIP Facility may be amended by the Petitioner Parties and the DIP Lenders with the consent of the Monitor. The Petitioner Parties may enter into a credit agreement ("**DIP Credit Agreement**") on terms and conditions contemplated by the DIP Commitment Letter. Until February 14, 2012, subject to paragraph 62 of this Order, the aggregate principal amount outstanding under the DIP Facility (excluding the face amount of any letters of credit issued under the DIP Facility) shall not exceed $40,000,000. The aggregate principal amount outstanding (including the face amount of any letters of credit issued under the DIP Facility) shall not exceed $119,800,000 ("**Initial Availability**") until the conditions to Final Availability pursuant to the DIP Commitment Letter or any DIP Credit Agreement have been either satisfied or waived by the DIP Agent.

41. Subject to paragraph 62 of this Order, the DIP Facility and the DIP Credit Agreement be and are hereby approved.

42. Subject to paragraph 62, all of the Petitioner Parties' obligations, liabilities and indemnities agreed to in their banking services and cash management agreements with any DIP Lender and any hedging agreements with any DIP Lender, or any of their affiliates, shall be secured by the DIP Lenders' Charge (defined below); provided that all such banking services obligations and hedging exposure secured by the DIP Lenders' Charge shall be subordinate to the repayment of all of the other Secured Obligations (defined in the DIP Credit Agreement). The Petitioner Parties are hereby authorized and empowered to execute and deliver such credit agreements (including the DIP Credit Agreement), mortgages, charges, hypothecs and security documents, blocked account agreements, guarantees and other definitive documents, as are

contemplated by the DIP Credit Agreement or as may be reasonably required by the DIP Lenders pursuant to the terms thereof or to evidence or implement the DIP Lenders' Charge, including all banking and cash management services agreements and all hedging agreements with one or more DIP Lenders or their affiliates (collectively, the "**DIP Documents**"), and the Petitioner Parties are hereby authorized and directed to pay all of their indebtedness, interest, fees, and liabilities and perform their obligations to the DIP Lenders under and pursuant to the DIP Commitment Letter, fee letter and the DIP Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order. For greater certainty, the Petitioner Parties are hereby authorized and directed to pay the fees of the DIP Agent and the DIP Lenders in connection with the DIP Facility and to pay the accounts of Canadian and US counsel to the DIP Agent and the DIP Lenders and advisors to the DIP Agent and to DIP Lenders in accordance with the DIP Commitment Letter and fee letter.

43. Subject to paragraph 62, the DIP Lenders shall be entitled to the benefit of and are hereby granted a charge (the "**DIP Lenders' Court Charge**") on the Charged Property immediately upon the making of a further order of the Court authorizing such a charge and advances to be made under the DIP Facility. The DIP Lenders' Court Charge shall not secure an obligation that existed before this Order is made.

44. Subject to paragraph 62, the DIP Lenders' Court Charge and any contractual security interests granted pursuant to the DIP Documents (collectively with the DIP Lenders' Court Charge, the "**DIP Lenders' Charge**") shall attach to the Charged Property and shall secure all obligations under the DIP Documents and all obligations owed to any DIP Lender (or its affiliates) for banking and cash management services and hedging obligations under transactions entered on or after the Order Date, provided to any Petitioner Party by that DIP Lender (or its affiliates). The DIP Lenders' Charge shall, subject to the terms and conditions of the DIP Credit Agreement concerning Permitted Priority Claims, have the priority set out in paragraphs 49, 50, 51, 53 and 54 hereof.

45. The Petitioner Parties are hereby authorized and directed to pay all funds received after the date of this Order, which are derived from accounts receivable to reduce the Revolving Exposure (as defined in the ABL Facility) or fund the cash collateral accounts contemplated in

paragraph 10(d) and 10(e) of this Order, as applicable, all in the order of application contemplated in section 2.18(b) of the ABL Facility until all Revolving Exposure thereunder has been either indefeasibly paid in full in cash or fully cash collateralized as required under paragraphs 10(c) and 10(d) of this Order.

46. Notwithstanding paragraphs 6, 9, 10 and 45 hereof and the terms of the Blocked Account Agreements between the Receivable Account Banks and the Pre-Petition Agent and subject to further Order of this Court:

(a) the Petitioner Parties shall pay to the Pre-Petition Agent (i) on the Business Day immediately following the Order Date, the amount, if any, by which the aggregate amount of all cash on hand at the close of business on the Order Date (the "**Cash on Hand**") exceeds the amount of $40,000,000 (such amount being referred to herein as the "**Permitted Cash Amount**"); and (ii) on each other Business Day, all cash receipts collected by the Company on account of accounts receivable or other proceeds of ABL First Lien Collateral (the "**Post Filing Collections**") on the previous Business Day; provided that in the event that the actual amount of the Cash on Hand is less than the Permitted Cash Amount, the Petitioner Parties shall not be obligated to make any payments pursuant to this paragraph 47(a) unless and until the total amount of the Cash on Hand on the Order Date plus the aggregate amount of the Post-Filing Collections is equal to the Permitted Cash Amount;

(b) the payments made by the Petitioner Parties to the Pre-Petition Agent pursuant to paragraph 47(a) may, in the discretion of the Pre-Petition Agent, be applied to the ABL Facility as permanent repayments thereof and/or held by the Pre-Petition Agent as cash collateral as security for the payment and performance of all contingent obligations forming part of the Secured Obligations, including any indemnification or payment obligations owing in connection with any Letters of Credit or any Derivatives Transactions; and

(c) Subject to the obligations of the Company to make payments to the Pre-Petition Agent as provided in paragraph 47(a) above, the Company shall be entitled to make payments out of the Cash on Hand and Post-Filing Collections to the extent of the Permitted Cash Amount substantially in accordance with the Revised Cash Flow Forecast (as defined in the DIP Commitment Letter").

47. Subject to paragraph 62 of this Order, but notwithstanding any other provision of this Order:

(a) the DIP Lenders may take such steps from time to time as they may deem necessary or appropriate to file, register, record or perfect the DIP Lenders' Charge or any of the DIP Documents;

(b) upon the occurrence of an event of default under any of the DIP Documents or the DIP Lenders' Charge, the DIP Lenders, (i) shall be entitled to immediately cease making any further advances or issue any additional financial accommodations to the Petitioner Parties, and (ii) upon two (2) business days notice (and subject to the requirements of the DIP Credit Agreement in the case of an Event of Default under Article VII, clause (t) thereof) to the Petitioner Parties and the Monitor, may exercise any and all of its rights and remedies against the Petitioner Parties or the Charged Property under or pursuant to the DIP Documents and the DIP Lenders' Charge, including without limitation, their right to set off and/or consolidate any amounts owing by the DIP Lenders to the Petitioner Parties against the obligations of the Petitioner Parties to the DIP Lenders under the DIP Documents or the DIP Lenders' Charge, to make demand, accelerate payment and give other notices, or to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Petitioner Parties and for the appointment of a trustee in bankruptcy of the Petitioner Parties; and

(c) the foregoing rights and remedies of the DIP Lenders shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Petitioner Parties or the Property.

48. The DIP Lenders, in such capacity, shall be treated as unaffected in any plan of arrangement or compromise filed by the Petitioner Parties under the CCAA, or any proposal filed by the Petitioner Parties under the *Bankruptcy and Insolvency Act* of Canada (the "**BIA**"), with respect to any advances made under the DIP Documents or the DIP Lenders' Charge.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

49. Subject to paragraph 62, in respect of the Charged Property of the Petitioner Parties which constitutes DIP Lenders' First Lien Collateral (as defined in Schedule "C" hereto), the priorities of the Charges (as defined below), the Encumbrances (as defined below) securing the obligations in connection with ABL Facility ("**ABL Facility Security**") and the Encumbrances securing the obligations in connection with the Noteholder Secured Obligations (the "**2016 Notes Security**"), as among themselves, shall be as follows:

First	-	the Administration Charge
Second	-	the DIP Lenders' Charge
Third	-	the ABL Facility Security
Fourth	-	the D&O Charge
Fifth	-	the 2016 Notes Security

50. Subject to paragraph 62, in respect of the Charged Property which constitutes Notes First Lien Collateral, the priority of the Charges, the 2016 Notes Security, the ABL Facility Security, as among themselves, shall be as follows:

First	-	the Administration Charge
Second	-	the D&O Charge
Third	-	the 2016 Notes Security
Fourth	-	the DIP Lenders' Charge
Fifth	-	the ABL Facility Security

51. Notwithstanding paragraphs 49 and 50, the DIP Lenders' Charge shall be subordinate to the following claims and Encumbrances against the Charged Property described below (but only to the extent, in each case, that such Encumbrances are not subordinate to claims over which the DIP Lenders' Charge has priority):

(a) validly perfected purchase money security interests to the extent of the principal obligations outstanding as of the date hereof and otherwise permitted in accordance with the DIP Credit Agreement, but in each case, only in respect of the specific purchased or leased Charged Property under the arrangements giving rise to the purchase money security interests; and

(b) deemed trusts under subsections 227(4) or (4.1) of the Income Tax Act (Canada), subsections 23(3) or (4) of the Canada Pension Plan or subsection 86(2) of the Employment Insurance Act (Canada) over the Charged Property.

(the "**Permitted Priority Claims**")

52. Notwithstanding paragraph 53 of this Order, subject to further order of the Court, the Administration Charge and the D&O Charge shall be subordinate to the Permitted Priority Claims (but only to the extent, in each case, that those Permitted Priority Claims are not subordinate to claims over which the DIP Lenders' Charge has priority).

53. The Charges shall constitute a mortgage, security interest, assignment by way of security and charge on the Charged Property and, save and except that the DIP Lenders' Charge shall be subordinate to the 2016 Notes Security in respect of the Notes First Lien Collateral, all of the Charges are paramount to and shall rank in priority to all other security interests, trusts, liens, mortgages, charges and encumbrances and claims of secured creditors, statutory or otherwise, whether existing as of the date hereof or arising in the future, including any and all deemed trusts (provincial or otherwise), including under the PBSA, all claims in respect of breach of fiduciary duties and any future charges which may arise under Sections 81.3, 81.4, 81.5 and 81.6 of the BIA (collectively, "**Encumbrances**"), in favour of any Person.

SUBJECT TO PARAGRAPH 62, 82

54. Notwithstanding any other provision of this Order or other fact, and except for the Administration Charge and the Permitted Priority Claims, the DIP Lenders' Charge against the DIP Lenders' First Lien Collateral shall be senior in priority over all other claims, Charges or Encumbrances including, without limitation, the 2016 Notes Security.

55. Any security documentation evidencing, or the filing, registration or perfection of, the Administration Charge, the DIP Lenders' Charge, and the D&O Charge (collectively, the "**Charges**") shall not be required, and the Charges shall be effective as against the Charged Property and shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected, notwithstanding any failure to file, register or perfect any such Charges. The Charges shall attach to all Charged Property including equipment, inventory, lease, license, occupation permit, or other contractual right notwithstanding any requirement for the consent of any lessor, licensor, or other party to or finance of any such Charged Property, or any other person, and notwithstanding the provisions of any applicable instrument or agreement to the contrary, the failure to obtain such consent shall not constitute a breach of or default under any such license, right of occupation, permit, statute, contractual or other agreement comprising or relating to such Charged Property.

56. Subject to further order of the Court, the Charges as they relate to the Petitioner Parties' interest in real property, shall be subordinate to the interest of such secured creditors with lawful Encumbrances registered against such real property who rank in priority behind the 2016 Notes Security, on such real property (such that they are not affected by the Charges, pending further

order of the Court elevating the priority of the Charges as against the real property interests of the Petitioner Parties granted by such further Order of the Court); provided that in no event shall the DIP Lenders' Charge be elevated to be in priority to the 2016 Notes Security as against such real property interests.

57. For greater certainty, the Charges and all such other Encumbrances as may attach to the LC Cash Collateral and the Derivatives Cash Collateral, including by operation of law or otherwise, (a) shall rank junior in priority to the ABL Facility Security and the DIP Charge in respect of LC Cash Collateral and the Derivatives Cash Collateral and (b) shall attach to the LC Cash Collateral and Derivatives Cash Collateral only to the extent of the rights of the Petitioner Parties to the return of any LC Cash Collateral and Derivatives Cash Collateral from the Pre-Petition Agent and DIP Agent following (i) the payment and satisfaction of (x) all LC Exposure and all Derivatives Secured Obligations and thereafter, (y) all other Secured Obligations (as defined in the ABL Facility) and all other Secured Obligations (as defined in the DIP Facility) and (ii) the exercise by the Pre-Petition Agent and the DIP Agent of any rights in respect of the LC Cash Collateral and the Derivatives Cash Collateral pursuant to Section 21 of the CCAA, notwithstanding anything to the contrary contained herein.

58. Except as otherwise expressly provided herein, or as may be approved by this Court, the Petitioner Parties shall not grant or suffer to exist any Encumbrances over any Property that rank in priority to, or *pari passu* with the Charges or the ABL Facility Security in the LC Cash Collateral and the Derivatives Cash Collateral, unless the Petitioner Parties obtain the prior written consent of the Monitor, the DIP Agent, the DIP Lenders and the beneficiaries of the Administration Charge, the D&O Charge, and the Issuing Bank and the Pre-Petition Agent.

59. The Administration Charge, the D&O Charge, the DIP Credit Agreement, the DIP Documents, the DIP Lenders' Charge, and the ABL Facility Security in respect of the LC Cash Collateral and the Derivatives Cash Collateral shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges and the ABL Facility Security in respect of the LC Cash Collateral and the Derivatives Cash Collateral (collectively, the "**Chargees**") shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any

application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, mortgage, security agreement, debenture, sublease, offer to lease or other agreement (collectively, an "**Agreement**") which binds the Petitioner Parties; and notwithstanding any provision to the contrary in any Agreement:

(a) neither the creation of the Charges nor the LC Cash Collateral nor the Derivatives Cash Collateral nor the execution, delivery, perfection, registration or performance of the DIP Documents shall create or be deemed to constitute a breach by the Petitioner Parties of any Agreement to which it is a party;

(b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Petitioner Parties entering into the DIP Documents, the creation of the Charges or the LC Cash Collateral or the Derivatives Cash Collateral, or the execution, delivery or performance of the DIP Documents; and

(c) the payments made by the Petitioner Parties pursuant to this Order, the DIP Documents, or the ABL Facility, and the granting of the Charges and the LC Cash Collateral and the Derivatives Cash Collateral, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

60. Any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Petitioner Parties' interest in such real property leases.

61. In the event of any inconsistency between the terms and conditions of the DIP Documents and of this Order, the provisions of this Order shall control and govern.

INTERIM ORDERS – FEBRUARY 3, 2012 HEARING

62. Notwithstanding any other provision of this Order, the DIP Lenders' Charge shall not be effective until further Order of the Court and no advances shall be made until the DIP Lenders' Charge is effective on terms satisfactory to the DIP Agent.

63. The Petitioner Parties are granted leave of this Court to apply on February 3, 2012 for Orders;

(a) permitting advances to be made under the DIP Facility and to effectuate the DIP Lenders' Charge;

(b) designating critical suppliers and creating a charge in favour of such critical suppliers;

(c) authorizing all payments due and owing or which may become due and owing pursuant to Catalyst Paper Corporation's retention program for senior executives as provided for in the Baarda Affidavit; and

~~(d) creating a Directors and Officers Charge; and~~

(e)(d) any other Orders,

as more particularly described in the Petitioner Parties Notice of Application dated January 31, 2012.

64. The Petitioner Parties shall serve those secured creditors likely to be affected by the orders sought at the February 3, 2012 no later than 12:00 pm on February 1, 2012, with the Petition, the Baarda Affidavit, the pre-filing report of the Proposed Monitor, a copy of the Petitioner Parties January 31, 2012 Notice of Application and any other material sought to be relied upon (collectively, the "**February 3rd Materials**").

65. If service is required pursuant to the *Constitutional Question Act*, R.S.B.C 1996, c 68, in respect of the February 3, 2012 hearing, service shall be effected pursuant to that Act if service is effected no later than 12:00 pm on February 1, 2012.

66. For the purposes of the February 3, 2012 hearing:

(a) the Monitor shall post the February 3rd Materials on the Monitor's website at: www.pwc.com/car-catalystpaper.

(b) the Petitioner Parties shall be entitled to serve the February 3rd Materials in respect of the applications to be heard at that hearing on those pension parties who may take the position they are likely to be affected by the Order sought including on any employee, former employee, and any spouse or designated beneficiary of an employee or former employee, who is entitled to a benefit under the Salaried Plan (as defined in the Petition) or Plan A (as defined in the Petition) administered by the Petitioner Parties, by way of personal service, courier delivery, electronic transmission or facsimile of the February 3rd Materials to: (1) Mr. Bill Sharkey, on behalf of the Catalyst TimberWest Retired Salaried Employees Association; (2) the Catalyst Pension Administration Committee; (3) the Financial Institutions Commission of B.C.; and (4) CIBC Mellon Trust in its capacity as the trustee for beneficiaries under Plan A who reside outside British Columbia.

(c) the Petitioner Parties shall be entitled to serve the February 3rd Materials in respect of the applications to be heard at that hearing on the critical suppliers listed in Exhibit "C" to the Baarda Affidavit by way of personal service, courier delivery, electronic transmission or facsimile of the February 3rd Materials to those parties.

SERVICE AND NOTICE

67. The Monitor shall (i) without delay, publish in The National Post and the Vancouver Sun a notice containing the information prescribed under the CCAA, (ii) within five days after the

Order Date, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against the Petitioner Parties of more than $5,000, and (C) prepare a list showing the names and addresses of those creditors (excluding employees) and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder.

68. The Petitioner Parties and the Monitor are at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to the Petitioner Parties' creditors or other interested parties at their respective addresses as last shown on the records of the Petitioner Parties and that any such service or notice by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

69. Notwithstanding paragraph 68, the Petitioner Parties and the Monitor shall be permitted to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, to any pension parties who may take the position they are likely to be affected including on any employee, former employee, and any spouse or designated beneficiary of an employee or former employee, who is entitled to a benefit under the Salaried Plan (as defined in the Petition) or Plan A (as defined in the Petition) administered by the Petitioner Parties, by way of: (1) notice to Mr. Bill Sharkey, on behalf of the Catalyst TimberWest Retired Salaried Employees Association; (2) notice to the Catalyst Pension Administration Committee; (3) notice to the Financial Institutions Commission of B.C.; (4) notice to CIBC Mellon Trust in its capacity as the trustee for beneficiaries under Plan A who reside outside British Columbia, or by locating the address of those particular beneficiaries and delivering the materials directly, and (5) solely for the purpose of service of this Order for the Comeback Hearing, publication of a notice by the Monitor, substantially in the form attached as **Schedule "D"**, in the following newspapers: the Vancouver Sun, Victoria Times Colonist, and The National Post.

70. The Petitioner Parties shall be entitled to effect service of the Baarda Affidavit, the Third Affidavit of Brian Baarda affirmed January 31, 2012, and the First Affidavit of Jyotika Reddy affirmed January 30, 2012 (the "**Supporting Affidavits**") by effecting service of the Supporting Affidavits without the exhibits attached thereto. The Monitor shall post the Supporting Affidavits with the attached exhibits on the Monitor's Website at: www.pwc.com/car-catalystpaper.

71. Any Person that wishes to be served with any application and other materials in these proceedings must deliver to the Monitor by way of ordinary mail, courier, personal delivery or electronic transmission a request to be added to a service list (the "**Service List**") to be maintained by the Monitor. The Monitor shall post and maintain an up to date form of the Service List on its website at: www.pwc.com/car-catalystpaper.

72. Any party to these proceedings may serve any court materials in these proceedings by emailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, and the Monitor shall post a copy of all prescribed materials on its website at: www.pwc.com/car-catalystpaper.

73. Notwithstanding paragraphs 71 and 72 of this Order, service of the Petition, the Notice of Hearing of Petition, the Supporting Affidavits, this Order and any other pleadings in this proceeding (collectively, the "**Materials**"), shall be made on the federal and British Columbia Crowns in accordance with the *Crown Liability and Proceedings Act*, R.S.C. 1985, c. C-50, and regulations thereto, in respect of the federal Crown, and the *Crown Proceeding Act*, R.S.B.C. 1996, c. 89, in respect of the British Columbia Crown.

74. If service is required pursuant to the *Constitutional Question Act*, R.S.B.C 1996, c 68, for any application in this proceeding (other than the February 3, 2012 hearing), service shall be effected pursuant to that Act if service is effected five (5) calendar days before any such application.

GENERAL

75. The Petitioner Parties or the Monitor may from time to time apply to this Court for advice and directions in the discharge of their powers and duties hereunder.

76. Nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Petitioner Parties, the Business or the Property.

77. THIS COURT REQUESTS the aid and recognition of other Canadian and foreign Courts, tribunal, regulatory or administrative bodies, including any Court or administrative tribunal of any Federal or State Court or administrative body in the United States of America, (including, without limitation, the United States Bankruptcy Court), to act in aid of and to be complementary to this Court in carrying out the terms of this Order where required. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to (i) make such orders and to provide such assistance to the Petitioner Parties and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, (ii) grant representative status to any of the Petitioners, and to CPC on behalf of any or all of the Petitioner Parties, in any foreign proceeding, and (iii) assist the Petitioner Parties, CPC, the Monitor and the respective agents of each of the foregoing in carrying out the terms of this Order.

78. Each of the Petitioners respectively and on its own behalf, and CPC on behalf of any or all of the Petitioner Parties, is hereby authorized and empowered, but not required, to (i) apply to any court, tribunal, regulatory, administrative, or other body, wherever located, for the recognition of this Order and/or for assistance in carrying out the terms of this Order, including, without limitation, to apply to the United States Bankruptcy Court for or otherwise pursue relief under chapter 15 of the *United States Bankruptcy Code*, 11 U.S.C. §§ 101-1330, as amended ("**Chapter 15 Relief**"), and (ii) act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized and/or aided in a jurisdiction outside Canada, including, without limitation, acting as a foreign representative of the Petitioner Parties in connection with any Chapter 15 Relief.

79. For the purposes of any applications authorized by paragraph 77, the centre of main interest of the Petitioner Parties is located in British Columbia, Canada.

80. The Petitioner Parties may (subject to the provisions of the CCAA and the BIA) at any time file a voluntary assignment in bankruptcy or a proposal pursuant to the commercial reorganization provisions of the BIA if and when the Petitioner Parties determine that such a filing is appropriate.

81. The Petitioner Parties and the DIP Agent are hereby at liberty to apply for such further interim or interlocutory relief as it deems advisable within the time limited for Persons to file and serve Responses to the Petition.

82. Leave is hereby granted to hear any application in these proceedings on two (2) clear days' notice after delivery to all parties on the Service List of such Notice of Application and all affidavits in support, subject to the Court in its discretion further abridging or extending the time for service.

83. Any interested party (including the Petitioner Parties and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to all parties on the Service List and to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

84. This Order is subject to provisional execution and that if any of the provisions of this Order in connection with the DIP Facility or DIP Lender Charge shall subsequently be stayed, modified, varied, amended, reversed or vacated in whole or in part (collectively a "**Variation**") whether by subsequent order of this Court or on or pending an appeal from this Order, such Variation shall not in any way impair, limit or lessen the protections, rights or remedies of the DIP Lender, whether under this Order (as made prior to the Variation) or under any of the documentation delivered pursuant hereto, with respect to any advances made prior to the DIP Lender being given notice of the Variation.

85. Endorsement of this Order by counsel appearing on this application is hereby dispensed with.

86. This Order and all of its provisions are effective as of 12:01 a.m. local Vancouver time on the Order Date.

THE FOLLOWING PARTIES APPROVE THE FORM OF THIS ORDER AND CONSENT TO EACH OF THE ORDERS, IF ANY, THAT ARE INDICATED ABOVE AS BEING BY CONSENT:

Signature of
☐ Party ☑ Lawyer for the Petitioner Parties
Bill Kaplan, Q.C./Peter Rubin

BY THE COURT

Farley J.

REGISTRAR

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

Schedule "B"

Name of Counsel	Party
John Sandrelli	A Representative Group of 2016 Noteholders
D. Gruber	A Representative Group of 2014 Unsecured Noteholders and certain 2016 Noteholders

Schedule "C"

"**DIP Lenders' First Lien Collateral**" means, in respect of any of the Petitioner Parties, the following assets and property of such Petitioner Party, now owned or hereafter acquired:

(a) all inventory, including goods held for sale, lease or resale, goods furnished or to be furnished to third parties under contracts of lease, consignment or service, goods which are raw materials or work in process, supplies and goods used in or procured for packing and materials used or consumed in the business of such Petitioner Party;

(b) all accounts due or accruing and all related agreements, books, accounts, invoices, letters, documents and papers recording, evidencing or relating to them;

(c) all monies and claims for monies now or hereafter due and payable in connection with any or all of the property described in (a) and (b) of this definition, all present and future acquired deposit accounts and other accounts of such Petitioner Party (other than any Noteholder Proceeds Collateral Account and any proceeds of Notes First Lien Collateral on deposit therein), all cash, cash equivalents and other monies of such Petitioner Party and all cash and non-cash proceeds of the foregoing;

(d) the real property legally described as PID: 001-233-432, District Lot 109, Sayward District, Except Parcel A (DD 285472-1) And Those Parts in Plans 1373-R, 16956, 50636, VIP54479, VIP64521 and EPP 7297;

(e) the real property located on Vancouver Island, British Columbia, and more particularly described as DIP Lenders' First Lien Collateral in the DIP Credit Agreement;

(f) the real property located in Washington State and more particularly described as DIP Lenders' First Lien Collateral in the DIP Credit Agreement:

(g) all leasehold interests in real property other than the Notes Leasehold Collateral;

(h) at any date, all and any rights or interest of the Petitioner Parties under any agreement, contract, license, instrument, document or other general intangible, in each case other than a leasehold interest in real property and other than any Excluded JV Interests (any such agreement, contract, license, instrument, document or other general intangible referred to solely for purposes of this definition as an "**Interest**") to the extent that such Interest by its terms, or any requirement of law, prohibits, or requires any consent (which has not been obtained) or establishes any other condition for or would terminate or be violated because of, an assignment thereof or a grant of a security interest therein by the Petitioner Parties (unless such consent is obtained or condition is satisfied);

(i) with respect to any Person, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, shares, partnership interests or any other participation, right or other interest in the nature of an equity interest in such Person owned by any of the Petitioner Parties (other than any Excluded JV Interests) including, without limitation, common stock and preferred stock

of such Person, or any option, warrant or other security convertible into any of the foregoing (the "**Capital Stock**") and other equity interests owned at any time by any of the Petitioner Parties in any corporation, partnership, joint venture, limited liability company, association or other business entity;

(j) all real property interests that are not fee interests or Notes Leasehold Collateral;

(k) any interest in real property acquired after May 31, 2011 if the net book value of such interest is less than $250,000;

(l) all records, documents, instruments, documents of title, investment property, financial assets, instruments, chattel paper, supporting obligations, commercial tort claims, letters of credit and letter of credit rights and other claims and causes of action, in each case, in connection with the foregoing;

(m) all substitutions and replacements of and increases, additions and, where applicable, accessions to the property described in (a) through (l) inclusive of this definition; and

(n) all proceeds in any form derived directly or indirectly from any dealing with all or any part of the property described in (a) through (m) inclusive of this definition, including the proceeds of such proceeds, but for greater certainty, excluding identifiable proceeds of Note First Lien Collateral.

For greater, certainty, any of the items set forth in this definition that are or become branded or otherwise produced through the use of any general intangibles or intellectual property shall constitute DIP Lenders' First Lien Collateral;

"**Notes First Lien Collateral**" means the assets and property of the Petitioner Parties charged by the 2016 Notes Security, including without limitation the following to the extent charged by the 2016 Notes Security, but excluding the DIP Lenders' First Lien Collateral and Excluded JV Interests:

(a) each Noteholder Proceeds Collateral Account and the proceeds therein as described in clause (g) below;

(b) all fee interests in any real property;

(c) the leasehold interests for the lands and buildings located at 1050 United Boulevard, Coquitlam, British Columbia and legally described as PID: 017-513-294 Lot A District Lot 16 and 48 Group 1 New Westminster District Plan LMP1969 and in which a Petitioner Party has a leasehold interest pursuant to a lease made between a Petitioner Party (resulting from an assignment by Norske Skog Canada Limited), as tenant, and Balaclava Holdings Ltd., as landlord, dated as of the 1st day of December, 2003 and registered in the Vancouver/ New Westminster land title office under number BV500248, and the lands and buildings located at 10203 Robson Road, Surrey, British Columbia and legally described as PID: 004-501-110 Lot 14 District Lots 9, 10 and 11 Group 2 New Westminster District Plan 41612 and in which a Petitioner Party has a leasehold interest

pursuant to a sublease made between a Petitioner Party (resulting from an assignment by Norske Skog Canada Limited), as tenant, and Wesik Enterprises Ltd., as landlord, dated for reference the 12th day of June 1998 and registered in the Vancouver/New Westminster land title office under number BM250814; (ii) the leasehold interests arising under any waterlot or foreshore leases required for access to any of the facilities forming part of the Notes First Lien Collateral; and (iii) all other leasehold interests acquired by a Petitioner Party after the date of this order that the Court determines to be material to the business of Catalyst Paper Corporation (together, the "**Notes Leasehold Collateral**");

(d) all equipment, machinery, fixtures, plants, tools and furniture;

(e) all intangibles and intellectual property;

(f) all records, documents, documents of title, investment property, financial instruments, chattel paper, supporting obligations, commercial tort claims, letters of credit and letter of credit rights and other claims and causes of action, in each case, in connection with the foregoing;

(g) all substitutions, replacements, accessions, products and proceeds (including, without limitation, insurance proceeds, payments, claims, damages and proceeds of suits) of any or all of the foregoing, including all identifiable proceeds of Notes First Lien Collateral, but for greater certainty excluding identifiable proceeds of DIP Lenders' First Lien Collateral.

"**Equity Securities**" means, with respect to any Person, any and all shares, interests, participations, rights in, or other equivalents (however designated and whether voting and non-voting) of, such Person's capital, including any interest in a partnership, limited partnership or other similar Person and any beneficial interest in a trust, and any and all rights, warrants, debt securities, options or other rights exchangeable or convertible into any of the foregoing.

"**Governmental Authority**" means the government of Canada, the United States of America, any other nation or any political subdivision thereof, whether provincial, territorial, state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"**Person**" means any natural person, corporation, limited liability company, trust, joint venture, association, company, Governmental Authority or other entity.

"**Subsidiary**" means , with respect to any Person, (a) any corporation of which an aggregate of more than 50% of the outstanding Equity Securities having ordinary voting power to elect a majority of the board of directors of such corporation is at the time, directly or indirectly, owned legally or beneficially by such Person (or one or more Subsidiaries of such Person), or with respect to which any such Person has the right to vote or designate the vote of 50% or more of such Equity Securities whether by proxy, agreement, operation of law or otherwise, and (b) any partnership, limited liability company or joint venture in which such Person or one or more Subsidiaries of such Person shall have an interest (whether in the form of participation in profits

or capital contribution) of more than 50% or of which any such Person is a general partner or member or may exercise the powers of a general partner or member.

Schedule "D"

No._____
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, 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., AND THE APACHE RAILWAY COMPANY

On January 31, 2012, upon the application of Catalyst Paper Corporation and certain of its subsidiaries (the "Company"), the Supreme Court of British Columbia (the "Court") granted an Order (the "Initial Order") under the *Companies' Creditors Arrangement Act* providing for an initial stay of proceedings through to February 14, 2012. PricewaterhouseCoopers Inc. was appointed as monitor (the "Monitor"). The Initial Order and a list of creditors, as represented by the Company, can be accessed by referring to the Monitor's website at www.pwc.com/car-catalystpaper (the "Website"). The Initial Order has provisions that affect the interest of creditors and other stakeholders of the Company. Interested parties are encouraged to check the Website frequently for updates as to the status of the proceedings. For further information, contact Ms. Patricia Marshall of PricewaterhouseCoopers Inc., at 604-806-7070 or by e-mail at patricia.marshall@ca.pwc.com.

No.
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

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

AND IN THE MATTER OF CATALYST PAPER CORPORATION AND THOSE CORPORATIONS DESCRIBED IN THE ATTACHED SCHEDULE "A"

PETITIONERS

CCAA INITIAL ORDER (January 31, 2012)

Bill Kaplan, Q.C. / Peter Rubin
Blake Cassels & Graydon LLP
Barristers & Solicitors
595 Burrard Street, PO Box 49314
Suite 2600, Three Bentall Centre
Vancouver, B.C. V7X 1L3
Phone: 604.631.3300
Agent: Dye & Durham

TAB 3

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

AMENDED AND RESTATED INITIAL ORDER

BEFORE THE HONOURABLE)
MR. JUSTICE SEWELL) 3/February/2012
)

THE APPLICATION of the Petitioners coming on for hearing at Vancouver, British Columbia, on the 3rd day of February, 2012 (the "**Order Date**"); AND ON HEARING, Bill Kaplan, Q.C., and Peter Rubin, counsel for the Petitioners, Peter Reardon and Wael Rostom (by telephone), counsel for JPMorgan Chase Bank, N.A. ("**JPMorgan**") in its capacity as administrative agent under the DIP Credit Agreement (in such capacity, the "**DIP Agent**"), John Grieve and Kibben Jackson, counsel for the Monitor PricewaterhouseCoopers Inc. ("**PwC**"), and those other counsel listed in **Schedule "B"** hereto; AND UPON READING the material filed, including the First

Affidavit of Brian Baarda affirmed January 31, 2012 (the "**Baarda Affidavit**"), the Third Affidavit of Brian Baarda affirmed January 31, 2012, the First Affidavit of Jyotika Reddy affirmed January 31, 2012, the First Affidavit of Robert Lindstrom affirmed February 1, 2012 and the consent of PwC to act as Monitor; AND UPON BEING ADVISED that the secured creditors and others who are likely to be affected by the charges created herein were given notice; AND pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36 as amended (the "**CCAA**"), the British Columbia Supreme Court Civil Rules and the inherent jurisdiction of this Honourable Court;

THIS COURT ORDERS AND DECLARES THAT:

1. This Amended and Restated Initial Order amends and restates the Initial Order of the Court dated January 31, 2012.

JURISDICTION

2. The Petitioners are companies to which the CCAA applies. Catalyst Paper General Partnership, a general partnership (the "**Partnership**") and its Property (defined below) shall enjoy the benefits of the protections provided to the Petitioners, and shall be subject to the same restrictions as the Petitioners, under this Order (the Petitioners, together with the Partnership, collectively, the "**Petitioner Parties**").

SUBSEQUENT HEARING DATE

3. The hearing of the Petitioner Parties' application for an extension of the Stay Period (as defined in paragraph 20 of this Order) and for any ancillary relief shall be held at the Courthouse at 800 Smithe Street, Vancouver, British Columbia at 9:45a.m. on Tuesday, the 14th day of February, 2012 or such other date as this Court may order (the "**Comeback Hearing**").

PLAN OF ARRANGEMENT

4. The Petitioner Parties shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (the "**Plan**").

POSSESSION OF PROPERTY AND OPERATIONS

5. Subject to this Order and any further Order of this Court, the Petitioner Parties shall remain in possession and control of their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof and for greater certainty, the property of the Partnership (collectively, the "**Property**"), and continue to carry on their business (the "**Business**") in the ordinary course and in a manner consistent with the preservation of the Business and the Property. The Petitioner Parties shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively, "**Assistants**" which definition for the purposes herein and as referred to in subparagraph 8(c) shall include Akin Gump Strauss Hauer & Feld LLP, Fraser Milner Casgrain LLP, Goodmans LLP, Farris, Vaughan, Wills & Murphy LLP, Kramer Levin, Moelis & Company LLC and Houlihan Lokey Capital, Inc.) currently retained or employed by them, with liberty to retain such further Assistants as they deem reasonably necessary or desirable in the ordinary course of business or for carrying out the terms of this Order.

6. The Petitioner Parties shall be entitled to continue to utilize the central cash management system currently in place as described in part in the Baarda Affidavit or, with the consent of the DIP Lenders (defined below), replace it with another substantially similar central cash management system including any modifications required in connection with the DIP Facility (defined below) (the "**Cash Management System**") and any present or future bank providing the Cash Management System: (i) shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the Petitioner Parties of funds transferred, paid, collected or otherwise dealt with in the Cash Management System; (ii) notwithstanding paragraph 26 of this Order, shall be entitled to provide the Cash Management

System and exercise its permitted discretion to adjust such services pursuant to the terms of the documentation applicable to the Cash Management System without any liability to any Person (defined below) other than the Petitioner Parties arising from the making of this Order or the insolvency of the Petitioner Parties; and (iii) shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims that may arise or expenses it may suffer or incur in connection with the provision of the Cash Management System.

7. Immediately upon the Petitioner Parties' receipt thereof or otherwise in accordance with the Petitioner Parties' current practices, the Petitioner Parties are authorized and directed to remit to the DIP Agent all cash, monies and collection of accounts receivable and other book debts in their possession or control (collectively, "**Cash Receipts**") and all Cash Receipts so remitted shall be applied in accordance with the DIP Documents (defined below). The DIP Agent is hereby authorized to (i) on the date hereof and from time to time in accordance with the DIP Credit Agreement (defined below) send a notice to each bank and deposit-taking institution that is a party to a Blocked Account Agreement (as defined in the DIP Credit Agreement), as such agreements may be amended from time to time (each a "**Receivable Account Bank**") to commence a period during which the applicable Receivable Account Bank shall cease complying with any instructions originated by any applicable Petitioner Parties and shall comply with instructions originated by the DIP Agent as to dispositions of funds, without further consent of the applicable Petitioner Parties and until further notice from the DIP Agent, and (ii) apply (and allocate) the funds in each Blocked Account (as defined in the DIP Credit Agreement) pursuant to the DIP Credit Agreement and paragraphs 10, 11(d) and 11(e) of this Order without further order or approval of this Court. Each Receivable Account Bank is hereby authorized and directed to comply with any instructions originated by the DIP Agent on or after the Order Date directing disposition of funds, without further consent of the applicable Petitioner Parties or further order or approval of this Court. As of the Closing Date under the DIP Credit Agreement, each Blocked Account Agreement (defined in the ABL Facility, as defined below) will continue and remain in full force and effect, in each case substituting the DIP Agent for the Pre-Petition Agent under the ABL Facility (defined below) as the secured party thereunder. Notwithstanding any provision of this Order, pending the closing date of the DIP Credit Agreement, the Pre-

Petition Agent shall be entitled to send notices to the following Receivables Account Banks in connection with specified accounts as agreed with the Petitioner Parties.

8. Subject to the terms, conditions and availability under the DIP Facility, the Petitioner Parties shall be entitled, but not required, to pay the following expenses which may have been incurred prior to the Order Date:

(a) all outstanding wages, salaries, employee and pension benefits (including long and short term disability payments), vacation pay and expenses (but excluding severance, termination pay and, subject to further Order of this Court, any payments pursuant to the retention program for senior executives) payable before or after the Order Date, in each case incurred in the ordinary course of business and consistent with the relevant compensation policies and arrangements existing at the time incurred (collectively "**Wages**");

(b) all amounts owing to or in respect of individuals working as independent contractors in connection with the Petitioner Parties' Business;

(c) the fees and disbursements of any Assistants (which term for the purposes herein shall be as defined in paragraph 5) retained or employed by the Petitioner Parties, including counsel for Wilmington Trust FSB in their capacity as Trustee under the Indentures dated as of March 10, 2010 and May 19, 2010, which are related to the Petitioner Parties' restructuring, at their standard rates and charges (and, for certainty, shall exclude any success or transaction fee), including payment of the fees and disbursements of legal counsel retained by the Petitioner Parties and the Directors, whenever and wherever incurred, in respect of:

(i) these proceedings or any other similar proceedings in other jurisdictions in which the Petitioner Parties or any subsidiaries or affiliated companies of the Petitioner Parties are domiciled;

(ii) any litigation in which the Petitioners are named as a party or are otherwise involved, whether commenced before or after the Order Date; and

(iii) any related corporate matters;

(d) all amounts owing for goods and services actually supplied to the Petitioner Parties:

(i) by chemical suppliers, fibre suppliers, utility and fuel suppliers, old newspaper suppliers and other related products, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties and the Monitor, the supplier is crucial to the business and ongoing operations of any of the Petitioner Parties;

(ii) by freight and logistics suppliers, third party customs brokers, agents, freight carriers, freight forwarders, warehousemen, and shippers, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties and the Monitor, the party providing the good or service is crucial to the business and ongoing operations of any of the Petitioner Parties; and

(iii) by other parties providing goods or services, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties and the Monitor, the supplier is crucial to the business and ongoing operations of any of the Petitioner Parties;

(e) with the prior consent of the Monitor and the DIP Agent, all amounts owing to creditors who, prior to the date of this Order, lawfully retained Property or exercised possessory liens against Property;

(f) all amounts in respect of customer programs including, *inter alia*, rebates, adjustments, performance and volume discounts; and

(g) any amounts payable in respect of customs and duties.

9. The Petitioner Parties shall be subrogated to the rights of any creditor receiving a payment pursuant to paragraph 8(d), 8(e), 8(f) and 8(g) of this Order in the amount of the payment(s) (the total amount paid to each such party constituting a "**Key Supplier Claim**"). Each such Key Supplier Claim shall be deemed to be assigned to the Petitioner Parties for all purposes and the Petitioner Parties shall be entitled to vote the Key Supplier Claims in any Plan.

10. The Petitioner Parties, the Pre-Petition Agent (as defined below) and the DIP Agent are authorized and directed to first apply all pre-filing and post-filing accounts receivable proceeds and account receivable collections in permanent repayment of the Secured Obligations (as defined in the asset based loan facility amended and restated May 31, 2011 between the Petitioner Parties and JPMorgan, as agent for the lenders thereunder (the "**Pre-Petition Agent**") and the various lenders signatory thereto as further amended, modified or supplemented from time to time (the "**ABL Facility**")), and to cash collateralize all contingent obligations forming part of the Secured Obligations as required pursuant to the DIP Documents (defined below) and this Order, including any indemnification or payment obligations owing by the Petitioner Parties in connection with any Existing LCs (defined below) and any Existing Derivatives Transactions (defined below).

11. Subject to the terms and conditions of and availability under the DIP Facility (defined below) and except as otherwise provided herein, the Petitioner Parties shall be entitled but not required to pay all expenses reasonably incurred by the Petitioner Parties in carrying on the Business in the ordinary course following the Order Date, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

(a) all expenses and capital expenditures reasonably incurred and which are necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors' and officers' insurance),

maintenance and security services, provided that any capital expenditure exceeding $1,000,000 shall be approved by the Monitor;

(b) all obligations incurred by the Petitioner Parties after the Order Date, including without limitation, with respect to goods and services actually supplied to the Petitioner Parties following the Order Date (including those under purchase orders outstanding at the Order Date but excluding any interest on the Petitioner Parties' obligations incurred prior to the Order Date);

(c) fees and disbursements of the kind referred to in paragraph 8(c) which may be incurred after the Order Date;

(d) the posting of additional cash collateral (the "**LC Cash Collateral**") into a LC Collateral Account (defined in the ABL Facility) established with the Pre-Petition Agent as required by Section 2.06(j) of the ABL Facility as additional and continuing security for the indemnification obligations owing by the Petitioner Parties in connection with existing letters of credit, letters of guarantee, surety bonds, and similar instruments comprising the LC Exposure (as defined in the ABL Facility) under the ABL Facility (collectively, "**Existing LCs**") that are not cancelled and replaced by a new letter of credit or other such instrument under the DIP Facility and for any foreign exchange losses incurred by any issuer of one or more of the Existing LCs and its correspondent banks, if any, under Existing LCs issued in currencies other than Canadian dollars or U.S. dollars;

(e) the posting of additional cash collateral (the "**Derivatives Cash Collateral**") into a cash collateral account established with the Pre-Petition Agent, in the name of the Pre-Petition Agent and for the benefit of the Derivatives Lenders (as defined in the ABL Facility) in an amount of the aggregate mark-to-market positions associated with all outstanding Derivatives Transactions (as defined in the ABL Facility), determined on a netted basis for each Derivatives Lender, as additional and continuing security for the Derivatives Secured Obligations (as defined under the ABL Facility) owing by the Petitioner Parties in connection with existing Derivatives Transactions not terminated on the Order Date (collectively,

"**Existing Derivatives Transactions**"). The Pre-Petition Agent shall hold the Derivatives Cash Collateral as collateral for the payment and performance of the Derivatives Secured Obligations (as defined in the ABL Facility), and shall have exclusive dominion and control, including the exclusive right of withdrawal, over the Derivatives Collateral Account (as defined in the ABL Facility) and, subject to the terms of this Order, the remaining provisions of Section 2.06(j) of the ABL Facility shall apply to the Derivatives Collateral Account, mutatis mutandis, as if the references therein to "LC Collateral Account" were references to the "Derivatives Collateral Account", references to "LC Exposure" were references to "Derivatives Secured Obligations", and references therein to "Issuing Bank" and "Revolving Lenders" were references to the "Derivatives Lenders";

(f) payment of any indebtedness of the Petitioner Parties to the Issuing Bank (as defined in the ABL Facility) and the Lenders (as defined in the ABL Facility) when due in connection with LC Exposure under the ABL Facility by way of set-off and transfer of LC Cash Collateral posted as at the Order Date or posted thereafter as permitted under subparagraph (d) above; and

(g) payment of any indebtedness of the Petitioner Parties to the Derivatives Lenders (as defined in the ABL Facility) when due in connection with Derivatives Secured Obligations under the ABL Facility by way of set-off and transfer of Derivatives Cash Collateral posted as at the Order Date or posted thereafter as permitted under subparagraph (e) above.

12. Subject to further Order of the Court, the Petitioner Parties:

(a) are authorized and directed to remit, in accordance with legal requirements, or pay any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from Wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes or any such claims which are to be paid pursuant to Section 6(3) of the CCAA;

(b) are authorized to remit, in accordance with legal requirements, or pay all goods and services or other applicable sales taxes (collectively, "**Sales Taxes**") required to be remitted by the Petitioner Parties in connection with the sale of goods and services by the Petitioner Parties, but only where such Sales Taxes accrue or are collected after the Order Date, or where such Sales Taxes accrued or were collected prior to the Order Date but not required to be remitted until on or after the Order Date;

(c) are authorized and directed to remit, in accordance with legal requirements, or pay all employer normal cost contributions to defined benefit and defined contribution registered pension plan provisions which, for greater certainty, excludes special payments (the **"Normal Cost Contributions"**) as required by the most recently filed actuarial valuations in respect of any pension plans registered under the *Pensions Benefits Standards Act* (British Columbia) (the "**PBSA**") and maintained by the Petitioner Parties (collectively, the "**Pension Plans**"), whether such Normal Cost Contributions are in respect of periods prior to, on or after the date of this Order and such payments shall be made within four (4) business days of each payroll date with notice of such payments provided to the B.C. Superintendent of Pensions;

(d) are authorized to remit or pay the special payments referenced in the letter dated December 14, 2011 from the Superintendent of Pensions attached as Exhibit "E" to the Baarda Affidavit in respect of any pension plans registered under the PBSA and maintained by the Petitioner Parties, but in no event shall the Petitioner make any special or catch up payments on an accelerated basis without further Order of this Court on not less than 15 days notice to the DIP Agent and Fraser Milner Casgrain LLP as Canadian counsel to the 2016 Steering Group (as defined below) and Goodmans LLP, as Canadian counsel to the Ad Hoc Noteholders (as defined below); and

(e) are authorized to remit, in accordance with legal requirements, or pay any amount payable to the Crown in right of Canada or of any Province thereof or any

political subdivision thereof or any other taxation authority in respect of municipal property taxes, municipal business taxes or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors.

13. Until such time as a real property lease is disclaimed in accordance with the CCAA, the Petitioner Parties shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable as rent to the landlord under the lease) based on the terms of existing lease arrangements or as otherwise may be negotiated between the Petitioner Parties and the landlord from time to time ("**Rent**"), for the period commencing from and including the Order Date, twice-monthly in equal payments on the first and fifteenth day of the month in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including Order Date shall also be paid.

14. Except as specifically permitted both by the Order and the DIP Documents (defined below), the Petitioner Parties are hereby directed, until further Order of this Court:

(a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Petitioner Parties to any of their creditors as of the Order Date;

(b) to make no payments in respect of any financing leases which create security interests;

(c) to grant no security interests, trusts, mortgages, liens, charges or encumbrances upon or in respect of any of its Property, nor borrow under or increase the principal amount secured by any existing security interests, trusts, mortgages, liens, charges or encumbrances upon or in respect of any of its Property nor become a guarantor or surety, nor otherwise become liable in any manner with respect to any other person or entity;

(d) to not grant credit except in the ordinary course of the Business only to its customers for goods and services actually supplied to those customers, provided such customers agree that there is no right of set-off in respect of amounts owing for such goods and services against any debt owing by the Petitioner Parties to such customers as of the Order Date; and

(e) to not incur liabilities except in the ordinary course of Business.

15. Notwithstanding any other provision in this Order, (a) no Issuing Bank shall be required to renew an Existing LC or issue any new letter of credit under the ABL Facility to the Petitioner Parties at the request or for the account of any of them and are hereby authorized to issue any required notices of non-renewal and (b) no DIP Lender shall be required to enter into a hedging agreement or any other eligible financial contract or provide any new banking or cash management services with any of the Petitioner Parties.

RESTRUCTURING

16. Subject to such requirements as are imposed by the CCAA and such covenants as may be contained in the DIP Documents (defined below), the Petitioner Parties shall have the right to:

(a) temporarily cease or, with the consent of the Monitor, permanently downsize or shut down all or any part of its Business or operations and commence marketing efforts in respect of any of its redundant or non-material assets and to dispose of redundant or non-material assets not exceeding $500,000 in any one transaction or $2,000,000 in the aggregate;

(b) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate; and

(c) pursue all avenues of refinancing for its Business or Property, in whole or part;

all of the foregoing to permit the Petitioner Parties to proceed with an orderly restructuring of the Business (the "**Restructuring**").

17. The Petitioner Parties shall provide each of the relevant landlords with notice of the Petitioner Parties' intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Petitioner Parties' entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors who claim a security interest in the fixtures, such landlord and the Petitioner Parties, or by further Order of this Court upon application by the Petitioner Parties, the landlord or the applicable secured creditors on at least two (2) clear days' notice to the other parties. If the Petitioner Parties disclaim the lease governing such leased premises in accordance with Section 32 of the CCAA, they shall not be required to pay Rent under such lease pending resolution of any dispute concerning such fixtures (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer of the lease shall be without prejudice to the Petitioner Parties' claim to the fixtures in dispute.

18. If a notice of disclaimer is delivered pursuant to Section 32 of the CCAA, then: (a) during the period prior to the effective time of the disclaimer, the landlord may show the affected leased premises to prospective tenants during normal business hours on giving the Petitioner Parties and the Monitor 24 hours' prior written notice; and (b) at the effective time of the disclaimer, the landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims the landlord may have against any Petitioner Party, or any other rights the landlord might have, in respect of such lease or leased premises and the landlord shall be entitled to notify the Petitioner Parties of the basis on which it is taking possession and gain possession of and re-lease such leased premises to any third party or parties on such terms as the landlord considers advisable, provided that nothing herein shall relieve the landlord of its obligation to mitigate any damages claimed in connection therewith.

19. Pursuant to Section 7(3)(c) of the *Personal Information Protection and Electronics Documents Act*, S.C. 2000, c. 5 and Section 18(1)(o) of the *Personal Information Protection Act*, S.B.C. 2003, c. 63, and any regulations promulgated under authority of either Act, as applicable (the "**Relevant Enactment**"), the Petitioner Parties, in the course of these proceedings, are

permitted to, and hereby shall, disclose personal information of identifiable individuals in its possession or control to stakeholders, its advisors, prospective investors, financiers, buyers or strategic partners (collectively, "**Third Parties**"), but only to the extent desirable or required to negotiate and complete the Restructuring or to prepare and implement the Plan or transactions for that purpose; provided that the Third Parties to whom such personal information is disclosed enter into confidentiality agreements with the Petitioner Parties binding them in the same manner and to the same extent with respect to the collection, use and disclosure of that information as if they were an organization as defined under the Relevant Enactment, and limiting the use of such information to the extent desirable or required to negotiate or complete the Restructuring or to prepare and implement the Plan or transactions for that purpose, and attorning to the jurisdiction of this Court for the purposes of that agreement. Upon the completion of the use of personal information for the limited purposes set out herein, the Third Parties shall return the personal information to the Petitioner Parties or destroy it. If the Third Parties acquire personal information as part of the Restructuring or the preparation and implementation of the Plan or transactions in furtherance thereof, such Third Parties may, subject to this paragraph and any Relevant Enactment, continue to use the personal information in a manner which is in all respects identical to the prior use thereof by the Petitioner Parties.

STAY OF PROCEEDINGS, RIGHTS AND REMEDIES

20. 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.

21. During the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "**Persons**" and each being a "**Person**") against or in respect of the Petitioner Parties or the

Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Petitioner Parties and the Monitor or leave of this Court.

22. Nothing in this Order, including paragraphs 20 and 21, shall: (i) empower any one of the Petitioner Parties to carry on any business which that Petitioner Party is not lawfully entitled to carry on; (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA; (iii) prevent the filing of any registration to preserve or perfect a mortgage, charge or security interest (subject to the provisions of Section 39 of the CCAA relating to the priority of statutory Crown securities); or (iv) prevent the registration or filing of a lien or claim for lien or the commencement of a Proceeding to protect lien or other rights that might otherwise be barred or extinguished by the effluxion of time, provided that no further step shall be taken in respect of such lien, claim for lien or Proceeding except for service of the initiating documentation on the Petitioner Parties.

NO INTERFERENCE WITH RIGHTS

23. During the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Petitioner Parties, except with the written consent of the Petitioner Parties and the Monitor or leave of this Court. Nothing in this Order shall stay or prohibit a DIP Lender that has entered into a hedging agreement or other eligible financial contract, whether before, on or after the date of this Order, with any of the Petitioner Parties from terminating such agreement or contract in accordance with its terms.

CONTINUATION OF SERVICES

24. 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.

CRITICAL SUPPLIER ORDER AND CHARGE

25. Those suppliers listed in **Schedule "C"** hereto are hereby deemed critical suppliers (the "**Critical Suppliers**") in accordance with section 11.4 of the CCAA. Any Critical Suppliers' Charge ordered by the Court (the "**Critical Suppliers' Charge**") shall have the priority set out in paragraphs 51 and 52 herein. Notwithstanding any other provision of this Order, no Critical Supplier shall be prohibited from requiring immediate payment for goods, services, use of leased or licensed property or other valuable consideration provided on or after the Order Date, nor shall any Critical Supplier be under any obligation to advance or re-advance any monies or otherwise extend any credit to the Petitioner Parties on or after the Order Date.

NON-DEROGATION OF RIGHTS

26. Subject to paragraph 25, notwithstanding any provision of this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of leased or licensed property or other valuable consideration provided on or after the Order Date, nor shall any Person be under any obligation to advance or re-advance any monies or otherwise extend any credit to the Petitioner Parties on or after the Order Date. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

27. During the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against the directors or officers of the Petitioner Parties with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Petitioner Parties whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the Petitioner Parties, if one is filed, is sanctioned by this Court or is refused by the creditors of the Petitioner Parties or this Court. Nothing in this Order, including in this paragraph, shall prevent the commencement of a Proceeding to preserve any claim against a director or officer of the Petitioner Parties that might otherwise be barred or extinguished by the effluxion of time, provided that no further step shall be taken in respect of such Proceeding except for service of the initiating documentation on the applicable director or officer.

DIRECTORS AND OFFICERS INDEMNIFICATION AND CHARGE

28. The Petitioner Parties shall indemnify their directors and officers against obligations and liabilities that they may incur as directors or officers of the Petitioner Parties after the commencement of the within proceedings, except to the extent that, with respect to any director or officer, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

29. The directors and officers of the Petitioners shall be entitled to the benefit of and are hereby granted a charge (the "**D&O Charge**") on the Charged Property (defined below), which charge shall not exceed the aggregate amount of $31,000,000, as security for the indemnity provided in paragraph 28 of this Order. The D&O Charge shall have the priority set out in paragraphs 51, 52, 54 and 55 herein. Subject to further Order of the Court, the relief granted in this paragraph shall extend to and include the date of the Comeback Hearing at which time the relief sought shall be considered on a *de novo* basis.

30. Notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the D&O Charge, and (b) the Petitioners' directors and officers shall only be entitled to the benefit of the D&O Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 28 of this Order.

APPOINTMENT OF MONITOR

31. PwC is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Petitioner Parties with the powers and obligations set out in the CCAA or set forth herein, and that the Petitioner Parties and their shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Petitioner Parties pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

32. The Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

(a) monitor the Petitioner Parties' receipts and disbursements;

(b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;

(c) assist the Petitioner Parties, to the extent required by the Petitioner Parties, in their dissemination to the DIP Lenders, counsel to the DIP Lenders, Fraser Milner Casgrain LLP as Canadian counsel to the representative group of the holders of the 2016 Notes (the "**2016 Steering Group**"), and Goodmans LLP (in their capacity as counsel to certain holders of 2014 Notes and certain holders of 2016 Notes (the "**Ad Hoc Noteholders**")), financial and other information as agreed to

between the Petitioner Parties and the DIP Lenders, the 2016 Steering Group, and the Ad Hoc Noteholders, acting reasonably, which may be used in these proceedings including reporting on a basis to be agreed on with the DIP Lenders;

(d) advise the Petitioner Parties in their preparation of the Petitioner Parties' cash flow statements and reporting required by the DIP Lenders and as may be required by the 2016 Steering Group and the Ad Hoc Noteholders, acting reasonably, which information shall be reviewed with the Monitor and delivered to the DIP Lenders, counsel to the DIP Lenders, Fraser Milner Casgrain LLP as Canadian counsel to the 2016 Steering Group, and Goodmans LLP, in their capacity as counsel to the Ad Hoc Noteholders, as the case may be, on a periodic basis as agreed to by the DIP Lenders;

(e) advise the Petitioner Parties in their development of the Plan and any amendments to the Plan;

(f) assist the Petitioner Parties, to the extent required by the Petitioner Parties, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;

(g) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Petitioner Parties, to the extent that is necessary to adequately assess the Petitioner Parties' business and financial affairs or to perform their duties arising under this Order;

(h) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;

(i) hold funds in trust or in escrow, to the extent required, to facilitate settlements or other transactions between the Petitioner Parties and any other Person; and

(j) perform such other duties as are required by this Order or by this Court from time to time.

33. The Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, or by inadvertence in relation to the due exercise of powers or performance of duties under this Order, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof, and nothing in this Order shall be construed as resulting in the Monitor being an employer or a successor employer, within the meaning of any statute, regulation or rule of law or equity, for any purpose whatsoever.

34. Nothing herein contained shall require or allow the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Fisheries Act*, the British Columbia *Environmental Management Act*, the British Columbia *Fish Protection Act* and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. For greater certainty, the Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

35. The Monitor shall provide any creditor of the Petitioner Parties and the DIP Lenders with information provided by the Petitioner Parties in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Petitioner Parties

is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Petitioner Parties may agree.

36. In addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the rights and protections afforded the Monitor by the CCAA or any applicable legislation.

ADMINISTRATION CHARGE

37. The Monitor, Canadian and U.S. counsel to the Monitor, and Canadian and U.S. counsel to the Petitioner Parties and the Directors, including the separate counsel acting for the Petitioner Parties in connection with the DIP Credit Facility and the DIP Credit Agreement, shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Petitioner Parties as part of the cost of these proceedings. The Petitioner Parties are hereby authorized and directed to pay the accounts of the Monitor, counsel to the Monitor and such Canadian and U.S. counsel to the Petitioner Parties on a periodic basis and, in addition, the Petitioner Parties are hereby authorized to pay to the Monitor, counsel to the Monitor, and such counsel to the Petitioner Parties, retainers in the aggregate amount of $350,000 to be held by them as security for payment of their respective fees and disbursements outstanding from time to time.

38. The Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the British Columbia Supreme Court and may be heard on a summary basis.

39. The Monitor, counsel to the Monitor, and counsel to the Petitioner Parties and the Directors shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on the Property other than Excluded JV Interests (as defined below) (collectively, the "**Charged Property**"), which charge shall not exceed an aggregate amount of $1,500,000, as security for their respective fees and disbursements incurred at the standard rates and charges of

the Monitor and such counsel, both before and after the making of this Order which are related to the Petitioner Parties' restructuring. The Monitor, counsel to the Monitor and counsel to the Petitioner Parties shall be required to provide the Monitor with bi-weekly updates regarding the unpaid amounts owing to them which are secured by the Administration Charge. The Administration Charge shall have the priority set out in paragraphs 51, 52, 54 and 55 herein. "**Excluded JV Interests**" means: (a) the Petitioner Parties' equity interests in Powell River Energy Inc. and Powell River Energy Limited Partnership and other equity interests in joint ventures with non-Loan Parties (collectively, together with Powell River Energy Inc. and Powell River Energy Limited Partnership, the "**JVs**"), and (b) assets of any such JVs (or any interest therein) held by a Loan Party as nominee for any such JV or any party thereto or as tenant in common with any non-Loan Party, except to the extent the property described in (b) above may become charged pursuant to the terms of the DIP Credit Agreement.

SALE OF NOTES FIRST LIEN COLLATERAL

40. Notwithstanding any other provision of this Order, if any of the Notes First Lien Collateral (as defined in **Schedule "D"** hereto) is sold, leased or otherwise disposed of, the proceeds of any such Notes First Lien Collateral will be deposited into one or more deposit accounts or securities accounts established by and under the sole dominion and control of Computershare Trust Company of Canada, in its capacity as collateral trustee for itself and the holders of the 2016 Notes (in such capacity, the "**Collateral Trustee**") (each such account, a "**Noteholder Proceeds Collateral Account**") whereupon, and subject to the provisions of this Order and the Charges (as defined below) and subject to the consent of the Monitor, such proceeds shall be used, applied and otherwise dealt with by the Collateral Trustee, Catalyst Paper Corporation or other applicable Petitioner Party, as applicable, to the extent permitted by the terms of each of the Indentures dated as of March 19, 2010 and May 19, 2010 as among Catalyst Paper Corporation, Wilmington Trust FSB and Computershare Trust Corporation of Canada (collectively, "**2016 Note Indenture**") under which certain notes (collectively, "**2016 Notes**") are issued. Each such Noteholder Proceeds Collateral Account shall constitute Notes First Lien Collateral.

DIP FINANCING

41. The Petitioner Parties are hereby authorized and empowered to obtain and borrow and reborrow (and obtain the issuance of letters of credit and other financial accommodations) under a credit facility (the "**DIP Facility**") to be made available by the DIP Agent as DIP Agent and as lender and LC Issuer and the other lenders from time to time party to the DIP Credit Agreement (together the "**DIP Lenders**") in order to finance the Petitioner Parties' working capital requirements, continuation of the Business, preservation of the Property, and other general corporate purposes provided that the aggregate principal amount outstanding (plus the face amount of any letters of credit issued under the DIP Facility) shall not exceed the lesser of $175,000,000 and the aggregate maximum amount permitted pursuant to the terms of the DIP Credit Agreement (as defined below) ("**Final Availability**").

42. The DIP Facility shall be available substantially on the terms and subject to the conditions set forth in the Commitment Letter attached as Exhibit "J" to the Baarda Affidavit (the "**DIP Commitment Letter**"). The Petitioner Parties may enter into a credit agreement (the "**DIP Credit Agreement**") on terms and conditions contemplated by and substantially consistent with the DIP Commitment Letter. After the date hereof, the Petitioner Parties and DIP Agent may amend the DIP Credit Agreement with the consent of the Monitor and, if material, on not less than two (2) business days' prior written notice to Fraser Milner Casgrain LLP as Canadian counsel of record for the 2016 Steering Group and Goodmans LLP, in their capacity as counsel to the Ad Hoc Noteholders. Until February 14, 2012, the aggregate principal amount outstanding under the DIP Facility (excluding the face amount of any letters of credit issued under the DIP Facility) shall not exceed $40,000,000. The aggregate principal amount outstanding (including the face amount of any letters of credit issued under the DIP Facility) shall not exceed $119,800,000 ("**Initial Availability**") until the conditions to Final Availability pursuant to the DIP Commitment Letter or any DIP Credit Agreement have been either satisfied or waived by the DIP Agent.

43. The DIP Facility and the DIP Credit Agreement be and are hereby approved.

44. All of the Petitioner Parties' obligations, liabilities and indemnities agreed to in their banking services and cash management agreements with any DIP Lender and any hedging agreements with any DIP Lender, or any of their affiliates, shall be secured by the DIP Lenders' Charge (defined below); provided that all such banking services obligations and hedging exposure secured by the DIP Lenders' Charge shall be subordinate to the repayment of all of the other Secured Obligations (defined in the DIP Credit Agreement). The Petitioner Parties are hereby authorized and empowered to execute and deliver such credit agreements (including the DIP Credit Agreement), mortgages, charges, hypothecs and security documents, blocked account agreements, guarantees and other definitive documents, as are contemplated by the DIP Credit Agreement or as may be reasonably required by the DIP Lenders pursuant to the terms thereof or to evidence or implement the DIP Lenders' Charge, including all banking and cash management services agreements and all hedging agreements with one or more DIP Lenders or their affiliates (collectively, the "**DIP Documents**"), and the Petitioner Parties are hereby authorized and directed to pay all of their indebtedness, interest, fees, and liabilities and perform their obligations to the DIP Lenders under and pursuant to the DIP Commitment Letter, fee letter and the DIP Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order. For greater certainty, the Petitioner Parties are hereby authorized and directed to pay the fees of the DIP Agent and the DIP Lenders in connection with the DIP Facility and to pay the accounts of Canadian and US counsel to the DIP Agent and the DIP Lenders and advisors to the DIP Agent and to DIP Lenders in accordance with the DIP Commitment Letter and fee letter.

45. The DIP Lenders shall be entitled to the benefit of and are hereby granted a charge (the "**DIP Lenders' Court Charge**") on the Charged Property. The DIP Lenders' Court Charge shall not secure an obligation that existed before this Order is made.

46. The DIP Lenders' Court Charge and any contractual security interests granted pursuant to the DIP Documents (collectively with the DIP Lenders' Court Charge, the "**DIP Lenders' Charge**") shall attach to the Charged Property and shall secure all obligations under the DIP Documents and all obligations owed to any DIP Lender (or its affiliates) for banking and cash management services and hedging obligations under transactions entered on or after the Order

Date, provided to any Petitioner Party by that DIP Lender (or its affiliates). The DIP Lenders' Charge shall, subject to the terms and conditions of the DIP Credit Agreement concerning Permitted Priority Claims, have the priority set out in paragraphs 51, 52, 53, 55 and 56 hereof.

47. The Petitioner Parties are hereby authorized and directed to pay all funds received after the date of this Order, which are derived from accounts receivable to reduce the Revolving Exposure (as defined in the ABL Facility) or fund the cash collateral accounts contemplated in paragraph 11(d) and 11(e) of this Order, as applicable, all in the order of application contemplated in section 2.18(b) of the ABL Facility until all Revolving Exposure thereunder has been either indefeasibly paid in full in cash or fully cash collateralized as required under paragraphs 11(d) and 11(e) of this Order.

48. For the period from January 31, 2012 through February 6, 2012 (inclusive) only and notwithstanding paragraphs 7, 10, 11 and 47 hereof and the terms of the Blocked Account Agreements between the Receivable Account Banks and the Pre-Petition Agent:

(a) the Petitioner Parties shall pay to the Pre-Petition Agent (i) on February 1, 2012, the amount, if any, by which the aggregate amount of all cash on hand at the close of business on the January 31, 2012 (the "**Cash on Hand**") exceeds the amount of $40,000,000 (such amount being referred to herein as the "**Permitted Cash Amount**"); and (ii) on each other business day, all cash receipts collected by the Company on account of accounts receivable or other proceeds of ABL First Lien Collateral (the "**Post Filing Collections**") on the previous Business Day; provided that until February 3, 2012 in the event that the actual amount of the Cash on Hand is less than the Permitted Cash Amount, the Petitioner Parties shall not be obligated to make any payments pursuant to this paragraph 48(a) unless and until the total amount of the Cash on Hand on January 31, 2012 plus the aggregate amount of the Post-Filing Collections is equal to the Permitted Cash Amount;

(b) effective on February 3, 2012, the Petitioner Parties shall pay to the Pre-Petition Agent an amount of not less than $11,200,000 from cash on hand;

(c) effective on February 8, 2012 and upon funding under the DIP Credit Facility becoming available in accordance with its terms, the Petitioner Parties shall pay to the Pre-Petition Agent any and all remaining Cash on Hand and thereafter this paragraph 48 shall no longer apply to qualify or restrict in any way the application of paragraphs 7, 10, 11 and 47 of this Order;

(d) the payments made by the Petitioner Parties to the Pre-Petition Agent pursuant to paragraph 48(a), or any other provision of this Order, may, in the discretion of the Pre-Petition Agent, be applied to the ABL Facility as permanent repayments thereof and/or held by the Pre-Petition Agent as cash collateral as security for the payment and performance of all contingent obligations forming part of the Secured Obligations, including any indemnification or payment obligations owing in connection with any Letters of Credit or any Derivatives Transactions; and

(e) subject to the obligations of the Company to make payments to the Pre-Petition Agent as provided in paragraph 48(a) above, the Company shall be entitled to make payments out of the Cash on Hand and Post-Filing Collections to the extent of the Permitted Cash Amount substantially in accordance with the Revised Cash Flow Forecast (as defined in the DIP Commitment Letter).

49. Notwithstanding any other provision of this Order:

(a) the DIP Lenders may take such steps from time to time as they may deem necessary or appropriate to file, register, record or perfect the DIP Lenders' Charge or any of the DIP Documents;

(b) upon the occurrence of an event of default under any of the DIP Documents or the DIP Lenders' Charge, the DIP Lenders, (i) shall be entitled to immediately cease making any further advances or issue any additional financial accommodations to the Petitioner Parties, and (ii) upon two (2) business days notice (and subject to the requirements of the DIP Credit Agreement in the case of an Event of Default under Article VII, clause (t) thereof) to the Petitioner Parties, the Monitor, Fraser

Milner Casgrain LLP as Canadian counsel to the 2016 Steering Group and Goodmans LLP, in their capacity as counsel to the Ad Hoc Noteholders, may exercise any and all of its rights and remedies against the Petitioner Parties or the Charged Property under or pursuant to the DIP Documents and the DIP Lenders' Charge, including without limitation, their right to set off and/or consolidate any amounts owing by the DIP Lenders to the Petitioner Parties against the obligations of the Petitioner Parties to the DIP Lenders under the DIP Documents or the DIP Lenders' Charge, to make demand, accelerate payment and give other notices, or to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Petitioner Parties and for the appointment of a trustee in bankruptcy of the Petitioner Parties; and

(c) the foregoing rights and remedies of the DIP Lenders shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Petitioner Parties or the Property.

50. The DIP Lenders, in such capacity, shall be treated as unaffected in any plan of arrangement or compromise filed by the Petitioner Parties under the CCAA, or any proposal filed by the Petitioner Parties under the *Bankruptcy and Insolvency Act* of Canada (the "**BIA**"), with respect to any advances made under the DIP Documents or the DIP Lenders' Charge.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

51. (a) In respect of the Charged Property of the Petitioner Parties which constitutes DIP Lenders' First Lien Collateral (as defined in Schedule "D" hereto) other than Excluded Assets (as defined in the ABL Facility), the priorities of the Charges (as defined below), the Encumbrances (as defined below) securing the obligations in connection with ABL Facility ("**ABL Facility Security**") and the Encumbrances securing the obligations in connection with the Noteholder Secured Obligations (as defined in the DIP Credit Agreement) (the "**2016 Notes Security**"), as among themselves, shall be as follows:

First - the Administration Charge

Second - the DIP Lenders' Charge

Third - the ABL Facility Security

Fourth - any Critical Suppliers' Charge, if ordered by the Court

Fifth - the D&O Charge

Sixth - the 2016 Notes Security

(b) In respect of the Charged Property of the Petitioner Parties which consists of "Excluded Assets" (as defined in the Intercreditor Agreement attached as Exhibit "D" to the Baarda Affidavit", the relevant portion of which is set forth in Schedule "D" hereto) which, for greater certainty, does not include the Excluded JV Interests, the priorities of the Charges shall be as follows:

First - the Administration Charge

Second - the DIP Lenders' Charge

Third - any Critical Suppliers' Charge, if ordered by the Court

Fourth - the D&O Charge

52. In respect of the Charged Property which constitutes Notes First Lien Collateral, the priority of the Charges, the 2016 Notes Security, the ABL Facility Security, as among themselves, shall be as follows:

First - the Administration Charge

Second - any Critical Suppliers' Charge, if ordered by the Court

Third - the D&O Charge

Fourth - the 2016 Notes Security

Fifth - the DIP Lenders' Charge

Sixth - the ABL Facility Security

53. Notwithstanding paragraphs 51 and 52, the DIP Lenders' Charge shall be subordinate to the following claims and Encumbrances against the Charged Property described below (but only to the extent, in each case, that such Encumbrances are not subordinate to claims over which the DIP Lenders' Charge has priority):

(a) validly perfected purchase money security interests to the extent of the principal obligations outstanding as of the date hereof and otherwise permitted in accordance with the DIP Credit Agreement, but in each case, only in respect of the specific purchased or leased Charged Property under the arrangements giving rise to the purchase money security interests; and

(b) deemed trusts under subsections 227(4) or (4.1) of the *Income Tax Act* (Canada), subsections 23(3) or (4) of the *Canada Pension Plan*, subsection 86(2) of the *Employment Insurance Act* (Canada)

(the "**Permitted Priority Claims**").

54. Notwithstanding paragraph 55 of this Order, subject to further order of the Court, the Administration Charge, the D&O Charge and any Critical Suppliers' Charge, if ordered by the Court, shall be subordinate to the Permitted Priority Claims (but only to the extent, in each case, that those Permitted Priority Claims are not subordinate to claims over which the DIP Lenders' Charge has priority).

55. The Charges shall constitute a mortgage, security interest, assignment by way of security and charge on the Charged Property and, save and except that the DIP Lenders' Charge shall be subordinate to the 2016 Notes Security in respect of the Notes First Lien Collateral, all of the Charges are paramount to and shall rank in priority to all other security interests, trusts, liens, mortgages, charges and encumbrances and claims of secured creditors, statutory or otherwise, whether existing as of the date hereof or arising in the future, including any and all deemed trusts (provincial or otherwise), including under the PBSA, all claims in respect of breach of fiduciary duties and any future charges which may arise under Sections 81.3, 81.4, 81.5 and 81.6 of the BIA (collectively, "**Encumbrances**"), in favour of any Person.

56. Notwithstanding any other provision of this Order or other fact, and except for the Administration Charge and the Permitted Priority Claims, the DIP Lenders' Charge against the DIP Lenders' First Lien Collateral shall be senior in priority over all other claims, Charges or Encumbrances including, without limitation, the 2016 Notes Security.

57. Any security documentation evidencing, or the filing, registration or perfection of, the Administration Charge, the DIP Lenders' Charge, any Critical Suppliers' Charge, if ordered by the Court, and the D&O Charge (collectively, the "**Charges**") shall not be required, and the Charges shall be effective as against the Charged Property and shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected, notwithstanding any failure to file, register or perfect any such Charges. The Charges shall attach to all Charged Property including equipment, inventory, lease, license, occupation permit, or other contractual right notwithstanding any requirement for the consent of any lessor, licensor, or other party to or finance of any such Charged Property, or any other person, and notwithstanding the provisions of any applicable instrument or agreement to the contrary, the failure to obtain such consent shall not constitute a breach of or default under any such license, right of occupation, permit, statute, contractual or other agreement comprising or relating to such Charged Property.

58. Subject to further order of the Court, the Charges as they relate to the Petitioner Parties' interest in real property, shall be subordinate to the interest of such secured creditors with lawful Encumbrances registered against such real property who rank in priority behind the 2016 Notes

Security, on such real property (such that they are not affected by the Charges, pending further order of the Court elevating the priority of the Charges as against the real property interests of the Petitioner Parties granted by such further Order of the Court); provided that in no event shall the DIP Lenders' Charge be elevated to be in priority to the 2016 Notes Security as against such real property interests.

59. For greater certainty, the Charges and all such other Encumbrances as may attach to the LC Cash Collateral and the Derivatives Cash Collateral, including by operation of law or otherwise, (a) shall rank junior in priority to the ABL Facility Security and the DIP Charge in respect of LC Cash Collateral and the Derivatives Cash Collateral and (b) shall attach to the LC Cash Collateral and Derivatives Cash Collateral only to the extent of the rights of the Petitioner Parties to the return of any LC Cash Collateral and Derivatives Cash Collateral from the Pre-Petition Agent and DIP Agent following (i) the payment and satisfaction of (x) all LC Exposure and all Derivatives Secured Obligations and thereafter, (y) all other Secured Obligations (as defined in the ABL Facility) and all other Secured Obligations (as defined in the DIP Facility) and (ii) the exercise by the Pre-Petition Agent and the DIP Agent of any rights in respect of the LC Cash Collateral and the Derivatives Cash Collateral pursuant to Section 21 of the CCAA, notwithstanding anything to the contrary contained herein.

60. Except as otherwise expressly provided herein, or as may be approved by this Court, the Petitioner Parties shall not grant or suffer to exist any Encumbrances over any Property that rank in priority to, or *pari passu* with the Charges or the ABL Facility Security in the LC Cash Collateral and the Derivatives Cash Collateral, unless the Petitioner Parties obtain the prior written consent of the Monitor, the DIP Agent, the DIP Lenders and the beneficiaries of the Administration Charge, the D&O Charge, and the Issuing Bank and the Pre-Petition Agent.

61. The Administration Charge, any Critical Suppliers' Charge, if ordered by the Court, the D&O Charge, the DIP Credit Agreement, the DIP Documents, the DIP Lenders' Charge, and the ABL Facility Security in respect of the LC Cash Collateral and the Derivatives Cash Collateral shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges and the ABL Facility Security in respect of the LC Cash Collateral and the Derivatives Cash Collateral (collectively, the "**Chargees**") shall not otherwise

be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, mortgage, security agreement, debenture, sublease, offer to lease or other agreement (collectively, an "**Agreement**") which binds the Petitioner Parties; and notwithstanding any provision to the contrary in any Agreement:

(a) neither the creation of the Charges nor the LC Cash Collateral nor the Derivatives Cash Collateral nor the execution, delivery, perfection, registration or performance of the DIP Documents shall create or be deemed to constitute a breach by the Petitioner Parties of any Agreement to which they are a party;

(b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Petitioner Parties entering into the DIP Documents, the creation of the Charges or the LC Cash Collateral or the Derivatives Cash Collateral, or the execution, delivery or performance of the DIP Documents; and

(c) the payments made by the Petitioner Parties pursuant to this Order, the DIP Documents, or the ABL Facility, and the granting of the Charges and the LC Cash Collateral and the Derivatives Cash Collateral, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

62. Any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Petitioner Parties' interest in such real property leases.

63. In the event of any inconsistency between the terms and conditions of the DIP Documents and of this Order, the provisions of this Order shall control and govern.

SERVICE AND NOTICE

64. The Monitor shall (i) without delay, publish in The National Post and the Vancouver Sun a notice containing the information prescribed under the CCAA, (ii) within five days after January 31, 2012, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against the Petitioner Parties of more than $5,000, and (C) prepare a list showing the names and addresses of those creditors (excluding employees) and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder.

65. The Petitioner Parties and the Monitor are at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to the Petitioner Parties' creditors or other interested parties at their respective addresses as last shown on the records of the Petitioner Parties and that any such service or notice by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

66. Notwithstanding paragraph 65, the Petitioner Parties and the Monitor shall be permitted to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, to any pension parties who may take the position they are likely to be affected including on any employee, former employee, and any spouse or designated beneficiary of an employee or former employee, who is entitled to a benefit under the Salaried Plan (as defined in the Petition) or Plan A (as defined in the Petition) administered by the Petitioner Parties, by way of: (1) notice to Mr. Bill Sharkey, on behalf of the Catalyst TimberWest Retired Salaried Employees Association; (2) notice to the Catalyst Pension Administration Committee; (3) notice to the Financial Institutions Commission of B.C.; (4) notice to CIBC Mellon Trust in its capacity as the trustee for beneficiaries under Plan A who reside outside British Columbia, or by locating the address of those particular beneficiaries and delivering the materials directly, and (5) solely for the purpose of service of this Order for the Comeback Hearing, publication of a notice by the

Monitor, substantially in the form attached as **Schedule "E"**, in the following newspapers: the Vancouver Sun, Victoria Times Colonist, and The National Post.

67. The Petitioner Parties shall be entitled to effect service of the Baarda Affidavit, the Third Affidavit of Brian Baarda affirmed January 31, 2012, and the First Affidavit of Jyotika Reddy affirmed January 30, 2012 (the "**Supporting Affidavits**") by effecting service of the Supporting Affidavits without the exhibits attached thereto. The Monitor shall post the Supporting Affidavits with the attached exhibits on the Monitor's Website at: www.pwc.com/car-catalystpaper.

68. Any Person that wishes to be served with any application and other materials in these proceedings must deliver to the Monitor by way of ordinary mail, courier, personal delivery or electronic transmission a request to be added to a service list (the "**Service List**") to be maintained by the Monitor. The Monitor shall post and maintain an up to date form of the Service List on its website at: www.pwc.com/car-catalystpaper.

69. Any party to these proceedings may serve any court materials in these proceedings by emailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, and the Monitor shall post a copy of all prescribed materials on its website at: www.pwc.com/car-catalystpaper.

70. Notwithstanding paragraphs 68 and 69 of this Order, service of the Petition, the Notice of Hearing of Petition, the Supporting Affidavits, this Order and any other pleadings in this proceeding (collectively, the "**Materials**"), shall be made on the federal and British Columbia Crowns in accordance with the *Crown Liability and Proceedings Act*, R.S.C. 1985, c. C-50, and regulations thereto, in respect of the federal Crown, and the *Crown Proceeding Act*, R.S.B.C. 1996, c. 89, in respect of the British Columbia Crown.

71. If service is required pursuant to the *Constitutional Question Act*, R.S.B.C 1996, c 68, for any application in this proceeding, service shall be effected pursuant to that Act if service is effected five (5) calendar days before any such application.

GENERAL

72. The Petitioner Parties or the Monitor may from time to time apply to this Court for advice and directions in the discharge of their powers and duties hereunder.

73. Nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Petitioner Parties, the Business or the Property.

74. THIS COURT REQUESTS the aid and recognition of other Canadian and foreign Courts, tribunal, regulatory or administrative bodies, including any Court or administrative tribunal of any Federal or State Court or administrative body in the United States of America, (including, without limitation, the United States Bankruptcy Court), to act in aid of and to be complementary to this Court in carrying out the terms of this Order where required. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to (i) make such orders and to provide such assistance to the Petitioner Parties and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, (ii) grant representative status to any of the Petitioners, and to CPC on behalf of any or all of the Petitioner Parties, in any foreign proceeding, and (iii) assist the Petitioner Parties, CPC, the Monitor and the respective agents of each of the foregoing in carrying out the terms of this Order.

75. Each of the Petitioners respectively and on its own behalf, and CPC on behalf of any or all of the Petitioner Parties, is hereby authorized and empowered, but not required, to (i) apply to any court, tribunal, regulatory, administrative, or other body, wherever located, for the recognition of this Order and/or for assistance in carrying out the terms of this Order, including, without limitation, to apply to the United States Bankruptcy Court for or otherwise pursue relief under chapter 15 of the *United States Bankruptcy Code*, 11 U.S.C. §§ 101-1330, as amended ("**Chapter 15 Relief**"), and (ii) act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized and/or aided in a jurisdiction outside Canada, including, without limitation, acting as a foreign representative of the Petitioner Parties in connection with any Chapter 15 Relief.

76. For the purposes of any applications authorized by paragraph 74, the centre of main interest of the Petitioner Parties is located in British Columbia, Canada.

77. The Petitioner Parties may (subject to the provisions of the CCAA and the BIA) at any time file a voluntary assignment in bankruptcy or a proposal pursuant to the commercial reorganization provisions of the BIA if and when the Petitioner Parties determine that such a filing is appropriate.

78. The Petitioner Parties and the DIP Agent are hereby at liberty to apply for such further interim or interlocutory relief as it deems advisable within the time limited for Persons to file and serve Responses to the Petition.

79. Leave is hereby granted to hear any application in these proceedings on two (2) clear days' notice after delivery to all parties on the Service List of such Notice of Application and all affidavits in support, subject to the Court in its discretion further abridging or extending the time for service.

80. Any interested party (including the Petitioner Parties and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to all parties on the Service List and to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

81. This Order is subject to provisional execution and that if any of the provisions of this Order in connection with the ABL Facility, ABL Facility Security, DIP Facility or DIP Lenders' Charge shall subsequently be stayed, modified, varied, amended, reversed or vacated in whole or in part (collectively a "**Variation**") whether by subsequent order of this Court or on or pending an appeal from this Order, such Variation shall not in any way impair, limit or lessen the protections, rights or remedies of the Pre-petition Agent, the DIP Agent and DIP Lenders, whether under this Order (as made prior to the Variation) or under any of the documentation delivered pursuant hereto, with respect to any receipts applied or used to reduce the obligations outstanding under the ABL Facility or DIP Facility, cash collateralize any obligations under

either facility or advances made under the DIP Facility, prior to the Pre-petition Agent and the DIP Agent being given notice of the Variation.

82. Endorsement of this Order by counsel appearing on this application is hereby dispensed with.

83. This Order and all of its provisions are effective as of 12:01 a.m. local Vancouver time on the Order Date.

THE FOLLOWING PARTIES APPROVE THE FORM OF THIS ORDER AND CONSENT TO EACH OF THE ORDERS, IF ANY, THAT ARE INDICATED ABOVE AS BEING BY CONSENT:

Signature of
☐ Party ☑ Lawyer for the Petitioner Parties
Bill Kaplan, Q.C./Peter Rubin

BY THE COURT

REGISTRAR

Certified a true copy according to the records of the Supreme Court at Vancouver, B.C.
This 6 day of FEBRUARY 2012
Authorized Signing Officer

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

Schedule "B"

Name of Counsel	Party
Kendall Andersen	Tolko Industries Ltd.
Randy Kaardal Brent Johnston	Catalyst TimberWest Retired Salaried Employees Association
John Sandrelli Shayne Kukulowicz Ryan Jacobs	A Representative Group of 2016 Noteholders
David Gruber Robert Chadwick Melaney Wagner	Certain holders of 2014 Notes and certain holders of 2016 Notes
Mary Buttery	Powell River Energy Inc. TimberWestForest Corp. Quadrant Investments Ltd.
Jane Milton, Q.C.	International Forest Products Limited Western Forest Products Inc. Seaspan Marine Corporation
Benjamin La Borie	Wilmington Trust FSB
W. Gary Wharton	Arrow Transportation
Heather Ferris	Board of Directors of Catalyst Paper Corporation
Don Bobert	CEP Locals – 1, 76 (Powell River), 592, 686 (Port Alberni), 1132 (Crofton), 630, 1123 (Campbell River)
Sebastien Anderson Stefanie Quelch	United Steelworkers International, Local 2688
Sandra Wilkinson	B.C. Superintendent of Pensions
Scott Sweatman Colin Galinski	Catalyst Paper Corporation Pension Administration Committee
Jonathan McLean Elizabeth Pillon (by telephone)	Canexus Chemicals Canada LP Casco, Inc.
Julie Gauthier	PPWC Local 2 (Crofton)
David McKinnon	Ad hoc group of Noteholders

Schedule "C"

CANEXUS CHEMICALS CANADA LP
CHEMTRADE WEST LIMITED
ERCO WORLDWIDE
ROHM AND HAAS CANADA LP
INTERNATIONAL FOREST PRODUCTS
TIMBERWEST FOREST COMPANY
TOLKO INDUSTRIES LTD
WESTERN FOREST PRODUCTS INC
C N FREIGHT
COASTAL PACIFIC EXPRESS INC
SEASPAN MARINE CORPORATION
BNSF RAILWAY COMPANY
EVONIK DEGUSSA
SEARLES VALLEY MINERALS
SWIFT TRANSPORTATION
CASCO, INC.

Schedule "D"

"**DIP Lenders' First Lien Collateral**" means, in respect of any of the Petitioner Parties, the following assets and property of such Petitioner Party, now owned or hereafter acquired:

(a) all inventory, including goods held for sale, lease or resale, goods furnished or to be furnished to third parties under contracts of lease, consignment or service, goods which are raw materials or work in process, supplies and goods used in or procured for packing and materials used or consumed in the business of such Petitioner Party;

(b) all accounts due or accruing and all related agreements, books, accounts, invoices, letters, documents and papers recording, evidencing or relating to them;

(c) (i) all monies and claims for monies now or hereafter due and payable in connection with any or all of the property described in (a) and (b) of this definition, (ii) all present and future acquired deposit accounts and other accounts of such Petitioner Party (other than any Noteholder Proceeds Collateral Account and any proceeds of Notes First Lien Collateral on deposit therein), (iii) all cash, cash equivalents and other monies of such Petitioner Party (other than any Noteholder Proceeds Collateral Account and any proceeds of Notes First Lien Collateral on deposit therein), and (iv) all cash and non-cash proceeds of the foregoing;

(d) the real property legally described as PID: 001-233-432, District Lot 109, Sayward District, Except Parcel A (DD 285472-1) And Those Parts in Plans 1373-R, 16956, 50636, VIP54479, VIP64521 and EPP 7297;

(e) the real property located on Vancouver Island, British Columbia, and more particularly described as DIP Lenders' First Lien Collateral in the DIP Credit Agreement;

(f) the real property located in Washington State and more particularly described as DIP Lenders' First Lien Collateral in the DIP Credit Agreement:

(g) all leasehold interests in real property other than the Notes Leasehold Collateral;

(h) at any date, all and any rights or interest of the Petitioner Parties under any agreement, contract, license, instrument, document or other general intangible, in each case other than a leasehold interest in real property and other than any Excluded JV Interests (any such agreement, contract, license, instrument, document or other general intangible referred to solely for purposes of this definition as an "**Interest**") to the extent that such Interest by its terms, or any requirement of law, prohibits, or requires any consent (which has not been obtained) or establishes any other condition for or would terminate or be violated because of, an assignment thereof or a grant of a security interest therein by the Petitioner Parties (unless such consent is obtained or condition is satisfied);

(i) with respect to any Person, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, shares, partnership interests or any other participation, right or other interest in the nature of an equity interest in such Person owned by any of the Petitioner Parties (other than any Excluded JV Interests) including, without limitation, common stock and preferred stock of such Person, or any option, warrant or other security convertible into any of the foregoing (the "**Capital Stock**") and other equity interests owned at any time by any of the Petitioner Parties in any corporation, partnership, joint venture, limited liability company, association or other business entity;

(j) all real property interests that are not fee interests or Notes Leasehold Collateral;

(k) any interest in real property acquired after May 31, 2011 if the net book value of such interest is less than $250,000;

(l) all records, documents, instruments, documents of title, investment property, financial assets, instruments, chattel paper, supporting obligations, commercial tort claims, letters of credit and letter of credit rights and other claims and causes of action, in each case, in connection with the foregoing;

(m) all substitutions and replacements of and increases, additions and, where applicable, accessions to the property described in (a) through (l) inclusive of this definition; and

(n) all proceeds in any form derived directly or indirectly from any dealing with all or any part of the property described in (a) through (m) inclusive of this definition, including the proceeds of such proceeds, but for greater certainty, excluding identifiable proceeds of Notes First Lien Collateral.

For greater, certainty, any of the items set forth in this definition that are or become branded or otherwise produced through the use of any intangibles or intellectual property shall constitute DIP Lenders' First Lien Collateral;

"**Notes First Lien Collateral**" means the assets and property of the Petitioner Parties charged by the 2016 Notes Security, including without limitation the following to the extent charged by the 2016 Notes Security in each case, now owned or hereafter acquired, but excluding the DIP Lenders' First Lien Collateral and Excluded JV Interests:

(a) each Noteholder Proceeds Collateral Account and the proceeds therein as described in clause (g) below;

(b) all fee interests in any real property;

(c) (i) the leasehold interests for the lands and buildings located at 1050 United Boulevard, Coquitlam, British Columbia and legally described as PID: 017-513-294 Lot A District Lot 16 and 48 Group 1 New Westminster District Plan LMP1969 and in which a Petitioner Party has a leasehold interest pursuant to a lease made between a

Petitioner Party (resulting from an assignment by Norske Skog Canada Limited), as tenant, and Balaclava Holdings Ltd., as landlord, dated as of the 1st day of December, 2003 and registered in the Vancouver/ New Westminster land title office under number BV500248; (ii) the leasehold interests for the lands and buildings located at 10203 Robson Road, Surrey, British Columbia and legally described as PID: 004-501-110 Lot 14 District Lots 9, 10 and 11 Group 2 New Westminster District Plan 41612, PID: 023-512-512, Lot 1 District Lot 12 and 13, Group 2 and of the Bed of the Fraser River NWD Plan LMP29318 and PID: 009-523-197, Lot 1 of the Bed of the Fraser River New Westminster District Plan 76570 and in which a Petitioner Party has a leasehold interest pursuant to a sublease made between a Petitioner Party (resulting from an assignment by Norske Skog Canada Limited), as tenant, and Wesik Enterprises Ltd., as landlord, dated for reference the 12th day of June 1998 and registered in the Vancouver/New Westminster land title office under number BM250814; (iii) the leasehold interests arising under any waterlot or foreshore leases required for access to any of the facilities forming part of the Notes First Lien Collateral including without limitation the 18 waterlot and foreshore leases described in Schedule A to the Form B – Mortgage dated March 4, 2010 granted by Catalyst Paper Corporation in favour of the Collateral Trustee registered with the British Columbia Land Title Office under numbers CA1482421 and CA1482422; and (iv) all other leasehold interests acquired by a Petitioner Party after the date of this order that the Court determines to be material to the business of Catalyst Paper Corporation (together, the "**Notes Leasehold Collateral**");

(d) all equipment, machinery, fixtures, plants, tools and furniture;

(e) all intangibles and intellectual property;

(f) all records, documents, documents of title, investment property, financial assets, instruments, chattel paper, supporting obligations, commercial tort claims, letters of credit and letter of credit rights and other claims and causes of action, in each case, in connection with the foregoing;

(g) all substitutions, replacements, accessions, products and proceeds (including, without limitation, insurance proceeds, payments, claims, damages and proceeds of suits) of any or all of the foregoing, including all identifiable proceeds of Notes First Lien Collateral, but for greater certainty excluding identifiable proceeds of DIP Lenders' First Lien Collateral; and

(h) the "ABL Snowflake Collateral" as that terms is defined in the Intercreditor Agreement.

"**Equity Securities**" means, with respect to any Person, any and all shares, interests, participations, rights in, or other equivalents (however designated and whether voting and non-voting) of, such Person's capital, including any interest in a partnership, limited partnership or other similar Person and any beneficial interest in a trust, and any and all rights, warrants, debt securities, options or other rights exchangeable or convertible into any of the foregoing.

"**Governmental Authority**" means the government of Canada, the United States of America, any other nation or any political subdivision thereof, whether provincial, territorial, state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"**Person**" means any natural person, corporation, limited liability company, trust, joint venture, association, unincorporated association, joint stock company, company, Governmental Authority or other entity.

"**Subsidiary**" of any specified Person means any corporation, partnership, joint venture, limited liability company, association or other business entity, whether now existing or hereafter organized or acquired:

(a) in the case of a corporation, of which more than 50% of the total voting power of the Equity Securities entitled (without regard to the occurrence of any contingency) to vote in the election of directors, officers or trustees thereof is held by that first-named Person or any of its Subsidiaries; or

(b) in the case of a partnership, joint venture, limited liability company, association or other business entity, with respect to which that first-named Person or any of its Subsidiaries (i) owns, directly or indirectly, more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, of such, and (ii) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such partnership, joint venture, limited liability company, association or other business entity, and (iii) has the power to direct or cause the direction of the management and policies of that entity by contract or otherwise.

Definition of "Excluded Assets" from the Intercreditor Agreement attached as Exhibit "D" to the Baarda Affidavit

"**Excluded Assets**" means the following:

(a) all Excluded Equipment and all motor vehicles and other equipment comprising "serial numbered goods" under the PPSA and any other applicable personal property security laws;

(b) the following surplus assets and existing assets scheduled to be sold:

(i) those surplus lands relating to the Elk Falls co-generation facility legally described as PID: 001-233-432, District Lot 109, Sayward District, Except Parcel A (DD 285472-I) And Those Parts in Plans 1373-R, 16956, 50636, VIP54479 and VIP64521;

(ii) the Canadian Poplar Farm Lands;

(iii) the U.S. Poplar Farm Lands; and

(iv) all leasehold interests in real property other than the Leasehold Collateral;

provided, however, that at no time shall the sum of (x) the aggregate book value of all Excluded Assets referred to in this clause (b) plus (y) commencing 90 days after the Closing, the aggregate book value of all Leasehold Collateral for which appropriate third party consents to the granting of security therein have not been obtained by Catalyst or the applicable Guarantor, exceed $25,000,000;

(c) all present and after acquired interests in real and personal property interests owned by any Subsidiary of Catalyst which is not a Guarantor or in the future required to be a Guarantor in accordance with the terms of the ABL Debt Documents, the Noteholder Secured Debt Documents or this Agreement (including the Powell River Energy Joint Venture), including any such interests owned jointly by Catalyst and any Subsidiary that is not a Guarantor as tenants-in-common (except to the extent that Catalyst's beneficial interest therein may be pledged in compliance with all applicable contractual and legal requirements, without any obligation on Catalyst to obtain any consent), or where Catalyst or any Guarantor holds such interest as nominee for any Subsidiary that is not a Guarantor, including those lands relating to the Powell River Energy Joint Venture legally described as:

(i) Parcel Identifier 002-560-194, Block 46, except those portions included in Plans 8519, 10829, Reference Plan 3573 and Explanatory Plan 6151 and Plans 12506 and 14689, District Lot 450 Plan 8096; and

(ii) Parcel Identifier 025-961-373, Lot F Blocks 43 and 46 District Lot 450 New Westminster District Plan BCP7701;

(d) all real property interests that are not fee interests or Leasehold Collateral;

(e) all Excluded Interests;

(f) all Excluded Equity Interests;

(g) any interest in real property acquired after the date hereof if the net book value of such interest is less than $250,000; and

(h) any other property that would otherwise comprise Notes First Lien Collateral, so long as the aggregate book value of the Excluded Assets under this clause (h) does not exceed $10,000,000 in the aggregate at any one time.

Schedule "E"

No._____
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, 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., AND THE APACHE RAILWAY COMPANY

On January 31, 2012, upon the application of Catalyst Paper Corporation and certain of its subsidiaries (the "Company"), the Supreme Court of British Columbia (the "Court") granted an Order (the "Initial Order") under the *Companies' Creditors Arrangement Act* providing for an initial stay of proceedings through to February 14, 2012. PricewaterhouseCoopers Inc. was appointed as monitor (the "Monitor"). The Initial Order and a list of creditors, as represented by the Company, can be accessed by referring to the Monitor's website at www.pwc.com/car-catalystpaper (the "Website"). The Initial Order has provisions that affect the interest of creditors and other stakeholders of the Company. Interested parties are encouraged to check the Website frequently for updates as to the status of the proceedings. For further information, contact Ms. Patricia Marshall of PricewaterhouseCoopers Inc., at 604-806-7070 or by e-mail at patricia.marshall@ca.pwc.com.

TAB 4

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

ORDER MADE AFTER APPLICATION

BEFORE THE HONOURABLE MR. JUSTICE SEWELL) 6/February/2012

ON THE APPLICATION of the Petitioners coming on for hearing at Vancouver, British Columbia, on the 6th day of February, 2012; AND ON HEARING, Bill Kaplan, Q.C., Peter Rubin and Anthony Purgas, counsel for the Petitioners, John Grieve and Kibben Jackson, counsel for the Monitor PricewaterhouseCoopers Inc., and those other counsel listed in Schedule "B" hereto; AND UPON READING the material filed;

THIS COURT ORDERS AND DECLARES THAT:

1. Paragraph 25 of the Amended and Restated Initial Order of the Court dated February 3, 2012 shall be deleted in its entirety and replaced with the following:

> 25. (a) Those suppliers listed in **Schedule "C"** hereto are declared to be critical suppliers (each a "**Critical Supplier**" and collectively, the "**Critical Suppliers**") and shall in accordance with this paragraph, from February 7, 2012, continue to supply goods and services to the Petitioner Parties on such terms and conditions as are consistent with the supply relationship existing between the Critical Supplier and the Petitioner Parties as of January 27, 2012 (the "**Existing Supply Relationship**");
>
> (b) (i) Each Critical Supplier shall only be required to provide credit to the Petitioner Parties up to an amount to be communicated to the Critical Supplier by the Monitor based on the Existing Supply Relationship (the "**Individual Credit Extension Amount**"); (ii) Other than goods or services ordered by the Petitioner Parties, the Petitioner Parties are entitled to refuse to take delivery of goods or services from a Critical Supplier if as a result of doing so the amount owing by the Petitioner Parties to that Critical Supplier would be greater than the Individual Credit Extension Amount; (iii) The Petitioner Parties shall not place an order for goods or services if, at the expected date of delivery of such goods and services such delivery would, pursuant to the terms and conditions of that Critical Supplier agreement, cause the Petitioner Parties to exceed the Individual Credit Extension Amount for such Critical Supplier; and (iv) If the Petitioner Parties receive supplies or services notwithstanding this subparagraph (b), the Critical Suppliers shall be entitled to claim payment in full of the amounts owing and the validity or amount of each Individual Critical Supplier Charge (as defined below) shall not be affected or impaired;
>
> (c) No Critical Supplier shall be required to deliver goods or services to the Petitioner Parties: (i) if as a result of doing so the amount owing by the Petitioner

Parties to that Critical Supplier would be greater than the Individual Credit Extension Amount; or (ii) in circumstances where that Critical Supplier is not being paid for those goods or services in accordance with the terms and conditions of the Existing Supply Relationship;

(d) The Critical Suppliers are hereby granted a charge (the "**Critical Suppliers' Charge**") on the Charged Property as security for any amounts for which the Petitioner Parties become indebted to the Critical Suppliers for the supply of goods or services after February 6, 2012, including interest pursuant to subparagraph (j) below;

(e) Each Critical Supplier shall be entitled to an individual critical supplier charge (the "**Individual Critical Supplier Charge**"), which shall form part of the Critical Suppliers' Charge, in an amount that is equal to 130% of the amounts referred to in subparagraph (d) above. Such Individual Critical Supplier Charge shall form part of the Critical Suppliers' Charge. Each Individual Critical Supplier Charge shall rank *pari passu* with each other Individual Critical Supplier Charge and shall share rateably in any distribution of the proceeds of the Critical Suppliers' Charge;

(f) Except as otherwise agreed by the Petitioner Parties and the applicable Critical Supplier, the Critical Suppliers that supply chips and pulp logs to the Petitioner Parties, shall supply, and the Petitioner Parties shall accept, volumes of product consistent with, and in the same relative proportions as, what was supplied and accepted in 2011;

(g) In the event the Petitioner Parties refuse to accept the delivery of any goods or services, or the delivery of such goods or services is not required to be made by the Critical Supplier as a result of the circumstances set out in subparagraph (c) above, the applicable Critical Supplier shall be permitted to sell such goods or services to any other person;

(h) The Monitor shall provide weekly reporting to each Critical Supplier, Fraser Milner Casgrain LLP as Canadian counsel to the 2016 Steering Group and Goodmans LLP as Canadian counsel to the Ad Hoc Noteholders as to the amount owing to each Critical Supplier according to the Petitioner Parties' records, and the Petitioner Parties shall provide all reasonable assistance to the Monitor in order for the Monitor to provide such reporting. The Monitor shall provide such further information as the 2016 Steering Group, the Ad Hoc Noteholders and the Critical Suppliers may reasonably require;

(i) The Critical Suppliers' Charge shall have the priority set out in paragraphs 51 and 52 herein;

(j) Each Critical Supplier shall be entitled to charge and be paid interest on the amounts owing to that Critical Supplier, for goods and services delivered after the date of, and pursuant to this paragraph, from the date of delivery of the applicable invoice at the rate of interest being charged by the DIP Lender plus 2.00% per annum, which Critical Supplier interest rate is currently equivalent to 5.00% per annum;

(k) The Critical Suppliers and the Petitioner Parties shall each cooperate in determining the prevailing terms and conditions of their Existing Supply Relationship, and the Critical Suppliers and the Petitioner Parties are hereby granted liberty to apply for such further orders or directions as may be necessary to resolve any disputes arising in connection with their supply relationships;

(l) Leave is hereby granted to any Critical Supplier to file and serve a Notice of Application at any time after March 11, 2012 seeking to amend or rescind the terms of this Critical Supplier Order as it applies to such Critical Supplier. In the event of such an application, the onus of maintaining the Critical Supplier Order shall be on the Petitioner Parties; and

(m) The Petitioner Parties shall pay the costs of (a) Tolko Industries Ltd.; (b) TimberWest Forest Corp.; (c) International Forest Products Limited, Western Forest Products Inc. and Seaspan Marine Corporation; and (d) Canexus Chemicals Canada LP. and Casco, Inc., (collectively the "**Four Critical Supplier Groups**"), in respect of this application and the negotiation of the Critical Suppliers' Charge, on a special costs basis. Such special costs are fixed in the amount of $15,000 for each of the above Four Critical Supplier Groups.

2. Endorsement of this Order by counsel appearing on this application is hereby dispensed with.

THE FOLLOWING PARTIES APPROVE THE FORM OF THIS ORDER AND CONSENT TO EACH OF THE ORDERS, IF ANY, THAT ARE INDICATED ABOVE AS BEING BY CONSENT:

Signature of
[ ] party [X] lawyer for the Petitioner Parties
Bill Kaplan, Q.C. / Peter Rubin

BY THE COURT.

J.

Registrar

Certified a true copy according to the records of the Supreme Court at Vancouver, B.C.
This 8 day of FEB 2012

Authorized Signing Officer

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

Schedule "B"

Name of Counsel	Party
John Sandrelli	A Representative Group of 2016 Noteholders
Mary Buttery Lance Williams	Powell River Energy Inc. TimberWestForest Corp. Quadrant Investments Ltd.
Jane Milton, Q.C.	International Forest Products Limited Western Forest Products Inc. Seaspan Marine Corporation
Kendall Andersen	Tolko Industries Ltd.
David Gruber John Uhren (by telephone)	Certain holders of 2014 Notes and certain holders of 2016 Notes
Jonathan McLean Elizabeth Pillon (by telephone)	Canexus Chemicals Canada LP Casco, Inc.
Benjamin La Borie	Wilmington Trust FSB
Peter Reardon	JPMorgan Chase Bank, N.A.
Don Bobert	CEP Locals – 1, 76 (Powell River), 592, 686 (Port Alberni), 1132 (Crofton), 630, 1123 (Campbell River)
Allison Tremblay	United Steelworkers International, Local 2688
David McKinnon	Ad hoc group of Noteholders
James Harnum	Robert McCaig

TAB 5

ORIGINAL

IN THE SUPREME COURT OF BRITISH COLUMBIA

Date: 20120214
Docket: S120712
Registry: Vancouver

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

Before: The Honourable Mr. Justice Sewell

Oral Reasons for Judgment

In Chambers

Counsel for Petitioners	W.C. Kaplan, Q.C. P.L. Rubin
Counsel for Monitor	J. Grieve K.M. Jackson
Counsel for A Representative Group of 2016 Noteholders	J.R. Sandrelli S. Kukulowicz
Counsel for Tolko Industries Ltd.	S. Anderson
Counsel for Powell River Energy Inc. and Quadrant Investments Inc.	M. Buttery H.L. Williams

#4227

Counsel for Catalyst Retired Salaried Employees Association	R.J. Kaardal
Counsel for Superintendent of Pensions	S. Wilkinson
Counsel for International Forest Products, Seaspan Marine Corporation and Western Forest Products	S.D. Dvorak
Counsel for Representative Group of 2014 Unsecured Noteholders and Certain 2016 Noteholders	D.E. Gruber J. Uhren
Counsel for Wilmington Trust FSB	B. La Borie
Counsel for JPMorgan Chase Bank	P.J. Reardon
Counsel for CEP Unions	D. Bobert
Counsel for United Steelworkers International and USW Local 2688	A. Tremblay
Counsel for Bennett Jones	D. McKinnon
Counsel for Canexus Chemicals Canada LP and Casco, Inc. (National Starch ULC)	E. Pillon
Appearing on behalf of Ronald Mackay	J. Arnam
Place and Date of Trial/Hearing:	Vancouver, B.C. February 14, 2012
Place and Date of Judgment	Vancouver, B.C. February 14, 2012

[1] **THE COURT**: Today, February 14th, was stipulated to be the come-back date with respect to the initial order I made in this *CCAA* proceeding on January 31st, 2012. The January 31st order was supplemented by further orders made February 3rd and February 7th, 2007. The order of February 3rd, 2007, has been referred to as the Amended Order, and I will use that nomenclature in giving these oral reasons.

[2] Before I proceed further with these reasons, I of course reserve the right to further clarify and elucidate on them should any party request a transcript of what I am about to say.

[3] At an earlier stage of these proceedings, it was contemplated that two issues would be dealt with today, the date for the come-back hearing. The first issue was whether and on what terms the court should order that a directors' and officers', or D&O, charge be created. The second issue related to the funding and securing and the appropriateness of a key employees retention plan, or KERP.

[4] At the outset of the hearing, I was informed that the parties are agreed that those matters should not be dealt with today because counsel and the parties were of the view that more time is required to deal with those issues. The parties accordingly seek a further hearing before me at some date next week to address those issues and finalize the terms of the come-back order.

[5] I am of course prepared to accommodate that request. I do not know what date is most convenient for counsel. However, I do direct that those matters be adjourned to a date to be fixed before the end of the hearing today and to be dealt with at that time.

[6] The orders which remain to be dealt with today deal principally with extending the stay of proceedings as contained in the Amended Order and, most critically, an order confirming and finalizing the priority of the DIP financing.

[7] I propose for simplicity to go through the provisions of the proposed order, which are found at tab 3 of the application record, and deal with each in turn.

[8] The first order which is sought is an order extending the stay of proceedings to April 30th, 2012.

[9] I have heard submissions from the petitioner and from counsel for the Monitor in support of the extension of the stay. Having heard those submissions and based on what I have learned about this proceeding in the course of hearing the numerous applications that have been before me, I am satisfied that the petitioner is proceeding in good faith and that there remains a reasonable possibility that a plan of arrangement will be approved.

[10] I am also satisfied that the petitioner is carrying on its business, obviously not in the normal course but in as normal a course as possible given the fact that it is under *CCAA* protection.

[11] No one has suggested that any party would be in any way prejudiced or opposes the extension of the stay, and accordingly, I make the order sought extending the stay of proceedings contained in the initial order as amended on February 3rd to April 30th, 2012.

[12] The second order which is sought relates to reporting requirements placed on the Monitor pursuant to the provisions of s. 23(1)(d)(ii) of the *Companies' Creditors Arrangement Act*.

[13] The Monitor seeks an order extending the time, if indeed it is an extension given the ambiguities in the interpretation of that section. However, for the purposes of this application, I am prepared to proceed on the assumption that an extension is required by the Monitor to file the report on the state of the petitioner's business and financial affairs.

[14] The Monitor proposes that that report be filed and prepared no later than March 30th, 2012. In my view that is an entirely reasonable date for many reasons, which I need not go into in detail. The most cogent of those reasons is of course the timing of these *CCAA* proceedings, which were unexpected until very shortly before they were filed and in which a very great deal has been accomplished in a very short

time. Accordingly, I make the order sought in para. 2 of the proposed form of order before me.

[15] The third order sought - when I say "sought," the third order set out in the proposed draft form of order - is directed to maintaining the status quo with respect to the directors' and officers' charge.

[16] I did make an order granting a directors' and officers' charge in the Amended Order. That order was made on the basis that at some point the question of the appropriateness and terms of such a charge would be dealt with on a *de novo* basis. The order which is sought before me today merely extends that temporary arrangement until the matter can be dealt with next week.

[17] Now, Mr. Kaplan, I note that the proposed form of order of course has the date in February being blank. Have counsel addressed the question of what day next week would be most convenient to have the hearing?

[18] MR. KAPLAN: We've been talking about the 23rd, which would be the Thursday.

[19] THE COURT: All right. So that arrangement will then remain in place until February 23rd, 2012.

[20] Paragraph 4 of the order seeks to amend para. 12(c) of the Amended Order to make it clear that both employer and employee contributions to the various pension plans in force with the company will be made in the ordinary course.

[21] I think it is quite clear that it was always intended that para. 12(c) of the Amended Order was to cover both employer and employee contributions. The order sought in para. 4 merely clarifies that, and in my view it is entirely appropriate to make that order, and I do so.

[22] The matter of the greatest controversy relates to para. 5 of the proposed Amended Order, which in turn deletes in its entirety and replaces para. 55 of the Amended Order.

[23] The effect of the new para. 55 will be to recognize the priority of the DIP charge as a final order and, when read together with the provisions of para. 7 of the order sought today, to give the DIP lender assurance that its charge will rank in the priority provided for in the orders which have been made in this court up to the present time. The parties are familiar with that priority insofar as it relates to the secured creditors and I need not repeat them here, but suffice it to say that generally speaking the DIP charge will rank behind the Administrative Charge on the working capital assets of the Petitioner and behind the Critical Suppliers' Charge on the fixed capital assets of the Petitioner.

[24] I am satisfied that the amended para. 55 is critical to the successful restructuring of the Petitioners and in particular is critical to ensuring that the Petitioners have adequate financing and working capital to permit them to carry on business in the normal course while the restructuring proceeds.

[25] In the course of submissions today I was referred to para. 42 of the Amended Order. Paragraph 42 was critical to the funding of the debtor-in- possession financing. It was designed to address the fact that a very great deal was happening in a very short period of time in this proceeding and that there was considerable uncertainty with respect to the rights of the various stakeholders that had not yet worked out.

[26] The basic scheme adopted under para. 42 of the Amended Order was to provide for DIP availability to the Petitioner. That availability was restricted to $40 million up to today, being the then contemplated come-back date. Once a final order was made approving the priority of the DIP financing, the available credit would be increased to $119,800,000 with the final availability of $175 million to be available to the Petitioner upon the expiration of any appeal period from an order made on the come-back date.

[27] It can be seen from the terms of para. 42 of the Amended Order that the amount of financing available to the Petitioner was contemplated to increase as

uncertainty with respect to the priority of security granted to the DIP lender was resolved.

[28] I also think it relevant that subsequent to the making of the Amended Order containing para. 42, I did make an order with respect to a Critical Suppliers' Charge which helped to facilitate additional liquidity to the Petitioners but made it clear that the Critical Suppliers' Charge should rank subsequent in priority to the DIP charge on the working capital assets, but in priority on the fixed assets.

[29] In my view the Petitioner has at all times been aware that it has substantial pension obligations. Initially the Superintendent of Pensions and the Catalyst TimberWest Retired Salaried Employees Association took the position that DIP priority could not be granted, at least full priority, over the company's pension obligations. Although no submissions were made to me with respect to the applicability and validity of that position, I was made aware that the parties were aware of the position taken by the company that it could obtain approval of DIP financing which would rank in priority to its pension obligations and of the position taken by the Superintendent and the Retired Employees Association that the principles enunciated in the *Indalex* decision of the Ontario Court of Appeal severely restricted, if not prohibited, such priority from being granted.

[30] I was informed by counsel for the Monitor and counsel for the parties that extensive discussions and negotiations with respect to this priority issue took place between the company and the DIP lender on the one hand and the representatives of the pensioners, being the Superintendent and the TimberWest Retired Salaried Employees Association, on the other.

[31] Those discussions resulted in the matter being canvassed before me on February 7th, 2012. At that time, I was informed that the persons and entities that I have just identified had reached an agreement on an application which would be put to me for approval. In the course of the brief submissions that were made on that date with respect to the approval, I was made aware of the competing positions that had been taken by the parties with respect to their statutory and legal rights, and I

was informed that a compromise of those positions satisfactory to the parties had been reached. Accordingly, I made the order, which I will summarize in these reasons.

[32] The order provided that the Amended Order of February 3rd, 2012, be further amended by adding a provision requiring the Petitioners to make additional contributions to the two pension plans in issue in this case. The first contributions, which were required to be made on March 18th, 2012, were in the amount of $26,565 to the smaller pension plan and $523,435 to the larger pension plan. Similar payments were agreed to be made, and the company was ordered and directed to make in the same amount on April 15th, 2012.

[33] Significantly and importantly, in my view, the order of February 7th also provided that the Catalyst TimberWest Retired Salaried Employees Association be, until further order, entitled to make representations to the court and be the authorized representative of the pension beneficiaries under the company's Salaried Pension Plan. The company's union pension plans have been of course represented separately. After hearing submissions, I was satisfied that those orders were appropriate and made them.

[34] On February 7th, I understood from the submissions that had been made to me, that the Superintendent, the pension representative and the Attorney General of B.C. had agreed that, in view of this arrangement, the DIP financing would rank in priority to any deemed trust under the *Pension Benefits Standards Act* or any other such obligation arising under trust law.

[35] On the hearing today, counsel for a group of pensioners and non-union employees asked that approval of the priority contained in the proposed amended para. 55 be delayed until next week to allow that counsel to make submissions that such an order was inappropriate, would violate his client's equitable and legal and statutory rights. In effect counsel now wishes to make the submissions that the Superintendent, the Attorney General and the Catalyst TimberWest Retired Salaried Employees Association had decided not to pursue with respect to the ability and

appropriateness of the court granting priority to the DIP financing over the pension rights of employees and retired employees.

[36] However, it is my view that that issue was dealt with and canvassed in the hearing on February 7th, 2012. At that time, it was made known to me that a satisfactory arrangement had been made to address that issue.

[37] Counsel for the pensioners group, now represented by Mr. A. Kaplan, appeared at that hearing by telephone and did not oppose any provision of the order that I made on February 7th, 2012, notwithstanding the fact that they were given the opportunity to make submissions at that time.

[38] I am satisfied that the order of February 7th was of critical importance to ensuring the priority of the DIP charge, which in turn was critical to the company being provided with the necessary liquidity to carry on business.

[39] No one at any time, including in the course of today's proceedings, has suggested to me that the petitioner can continue to carry on business without adequate DIP financing.

[40] It is my view that the pensioners' position was fairly and adequately represented in the arrangements embodied in the order made on February 7th, 2012, which by implication approved the terms of the para. 55 order now sought before me.

[41] Given the nature of the proceeding before me and the nature of the company's business and the importance of the company's continued operations, not only to the immediate stakeholders but generally, and given the fact that I am satisfied that the pensioners as a group were fairly represented in the arrangements which I am now being called upon to approve, I am prepared to make the order on the terms sought in para. 5, that is, amending and replacing para. 55 of the Amended Order.

[42] One exception to that approval was canvassed in argument. I direct that the amended para. 55 make provision to allow counsel for the United Steelworkers International to make submissions to me that some provision be made for the U.S. unionized employees of the petitioner to be put in the same economic position as the Canadian employees are as a result of their WEPA rights in bankruptcy. As I understand it, that would in effect put counsel for the United Steelworkers International in a position to argue that some provision should be made to provide his clients the same priority on a bankruptcy as enjoyed by Canadian employees with WEPA. As I understand it, that priority is $2,000 per employee.

[43] In making this order I am in no way prejudging the issue of whether it is appropriate that that relief be granted. I do however wish to make it clear that I am not prepared to entertain an application next week granting any trust fund for the U.S. employees. In my view, the granting of any such trust would not preserve the status quo as it existed at the time of the filing of the *CCAA* and would seriously impact the efficacy of the DIP charge.

[44] I am also prepared to grant Mr. A. Kaplan's clients leave to seek an order that they replace the Catalyst TimberWest Retired Salaried Employees Association as the authorized representative of the pension beneficiaries of the company's Salaried Pension Plan. That application will be heard at the same time as the other matters which I have deferred to Thursday, February 23rd, 2012.

[45] With the exception of those two applications, however, I approve the provisions of the amended para. 55.

[46] The last application dealing with representation of course deals with the provisions of the order of February 7th, 2012, amending para. 84 of the Amended Order.

[47] The final two matters that I need to deal with are paras. 6 and 7 of the proposed form of order.

[48] With respect to para. 6, I am satisfied, based on the Monitor's report and the material before me, that proper service in accordance with the requirements of the *CCAA* and the Amended Order has been carried out and effected. I am also satisfied, based on the fact that all interested parties appear to have had actual notice of these proceedings and have been able to appear and make whatever representations they considered appropriate, that the service requirements have fully been complied with.

[49] I think that I have already dealt with the substantive considerations relating to para. 7 of the proposed form of order that is before me. I do not think I can usefully add anything to what I have already said other than to repeat that I am satisfied that the assurance of the priority of the DIP facility and the DIP lenders' charge should be recognized, and I am prepared to make the order sought in para. 7, which in my view is in accordance with the provisions of s. 11.2 of the *CCAA*.

[50] I am also prepared to make the usual order dispensing with the endorsement of all counsel appearing except counsel for the petitioner on the order.

[51] MR. KAPLAN: Thank you, My Lord. One issue that relates to the hearing on the 23rd. I don't know what that hearing will look like yet in respect of the time available to hear both –

[52] THE COURT: Mr. Kaplan, I think people are having trouble hearing you.

[53] MR. KAPLAN: That was kind of intentional. I figure if they don't hear they won't come next time.

[54] THE COURT: Maybe if they hear you they will not come next time.

[55] MR. KAPLAN: This is still the morning from my calendar. This remains the morning. In terms of what's going to happen on the 23rd, I don't know how much time the meeting order or the other orders may take. So I'm a little concerned about having the recognition hearing on that day. I don't want to say that it necessarily ought to be moved, but as long as it is understood that the hearing that we had

talked about for the 23rd is the one that will move to completion, we should proceed on that basis. Frankly, it may be better for a discussion with counsel about whether it needs to be that Thursday or it can be some other day, because I'm certainly concerned that it not be a hearing of a motion that in any way impedes with what else has to be done on the 23rd. So certainly if we start with the meeting order motion or whatever motion that's going to be for the 23rd and we go to completion and then we deal with the recognition order, that's satisfactory in my submission, but frankly it puts counsel in a bit of a difficult boat because they may need time. I don't even know what the time estimates are. So I'm concerned that we schedule that for the 23rd today without knowing the time and without knowing what arrangements are made. So I'm leaving it in the hands of Mr. Kaardal and Mr. Kaplan as to how they want to deal with that, but certainly that other motion ought to be heard to completion first.

[56] THE COURT: And there is Mr. Anderson's motion as well.

[57] MR. KAPLAN: And Mr. Anderson's motion as well, kind of in the door first.

[58] THE COURT: Right. Well, perhaps this is a matter that maybe should be – I mean, I realize it is very difficult to estimate how long things are going to take. I share your concern with regard to there being enough time to deal with everything on one day. I am available on the Friday. Subject to some compelling argument from counsel, I am of the view that the two issues which were originally set down for today, in other words the D&O and the KERP [phonetic] matter, should be dealt with first.

[59] UNIDENTIFIED MALE SPEAKER: If it assists, My Lord, I'm available on the Friday as well to deal with the [inaudible], if that assists.

[60] MR. GRUBER: And we are prepared to deal with it on Thursday and/or Friday. We will be fully prepared. I don't think this entire motion, our motion, our application, that is, will take more than an hour, including responding submissions. So just from what I've heard around the room, and obviously everyone reserves their

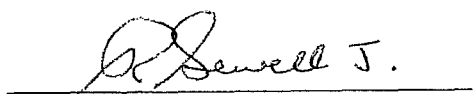
rights to take a position at that date, but I see this as being a relatively straightforward issue that would be done quite efficiently, and so we're prepared to stay over on to Friday as well.

[61] MR. KAPLAN: Maybe it's best just to schedule them for Friday, because then people don't have to be here to wait. I'm in your hands on that, but if we have two days we'll get it all done.

[62] THE COURT: I think we should schedule them all for the Thursday. I know I can be available on the Friday. We may have to extend the hours a bit on the Thursday to get some matters resolved.

[63] MR. KAPLAN: Thank you, My Lord.

[64] THE COURT: Is there anything, ladies and gentlemen, that I need to deal with? Thank you.



The Honourable Mr. Justice Sewell

TAB 6

IN THE SUPREME COURT OF BRITISH COLUMBIA

Date: 20120309
Docket: S120712
Registry: Vancouver

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

Before: The Honourable Mr. Justice Sewell

Oral Reasons for Judgment

In Chambers

Counsel for Petitioners	P.L. Rubin A. Purgas
Counsel for Monitor	K.M. Jackson
Counsel for A Representative Group of 2016 Noteholders	J.R. Sandrelli
Counsel for Superintendent of Pensions	S. Wilkinson
Counsel for Representative Group of 2014 Unsecured Noteholders and Certain 2016 Noteholders	D.E. Gruber

Counsel for Wilmington Trust FSB	B. La Borie
Counsel for CEP Unions	D. Bobert
Counsel for United Steelworkers International and USW Local 2688	S. Quelch
Counsel for Ad Hoc Committee of 2014 Noteholders	D. McKinnon
Counsel for Wells Fargo Bank NA	V. Sinha
Counsel for Board of Directors of Catalyst	H. Ferris
Counsel for Ronald Gary McCaig and Certain Other Non-Union Employees and Retirees	D. Yiokaris
Place and Date of Trial/Hearing:	Vancouver, B.C. March 9, 2012
Place and Date of Judgment	Vancouver, B.C. March 9, 2012

[1] **THE COURT**: This is an application for approval of a Key Employee Retention Plan ("KERP"), and a letter agreement described in affidavits No. 1 and 2 of Mr. William Dickson which were before me on this application. This is also the application to create a charge to secure the petitioner's obligations under such KERP.

[2] The purpose of the KERP is to provide an assurance of payment to key employees during the period of the ***CCAA*** reorganization and an assurance to those employees that whatever rights that they would otherwise have had on severance will be respected.

[3] The evidence before me is that the retention of the key employees referred to in the application and in the fourth report of the Monitor, dated March 12th, 2012, together with the continuity of the management of the petitioner that retention of those employees represents, is and has been of central importance to the petitioner's restructuring efforts.

[4] The KERP program, which I am asked to approve, was recommended by the management consultants firm of Towers Watson to the company in 2011.

[5] The history and background of the establishment of the KERP is outlined in s. 7 of the Monitor's fourth report, and I need not repeat what the Monitor has said in that report in these reasons. However, I do adopt into these reasons the history of the KERP set out in the Monitor's report.

[6] Of central importance in my view is that by the summer of 2011, the petitioner was aware that there was considerable pressure on senior management of the petitioner to secure their own financial futures by seeking employment elsewhere.

[7] In August 2011, the petitioner's vice-president and treasurer was recruited by a competitor and therefore his services were lost to the company.

[8] In that same time period, senior management of the petitioner also recognized that there was a significant possibility and indeed perhaps almost an

inevitability that the petitioner would be required to reorganize its affairs through a recapitalization that would likely result in a change in control of the petitioner, creating further uncertainty for the key employees of the petitioner.

[9] In response, the petitioner established a Key Employee Retention Program in November of 2011 after such a program was approved by the board in October 2011. The terms of that program are described in the fourth affidavit of William Dickson and in the Monitor's fourth report.

[10] In December 2011, the company secured its obligations under the KERP by providing two letters of credit in the aggregate amount of $8,260,000. These two letters of credit were issued to secure the company's obligations under what were referred to in the submissions to me as the change in control circumstances and for retention amounts. Given the terms of the petitioner's operating facility, this amount, that is the $8,260,000, became unavailable to the petitioner to finance its everyday operations.

[11] Since the outset of these proceedings, the company has been negotiating towards accomplishing the twin goals of obtaining access to these operating funds while continuing to maintain an effective KERP to meet the objects of retention of key employees and continuity of management.

[12] No party opposes the approval of the KERP. In my view, the provisions of the KERP are an essential component of the petitioner's restructuring efforts. In this case the petitioner has only a short window left to restructure its capital and continue in business in its present form. The loss of key employees at this critical time would cause irreparable damage to the company's reorganization in my view. In this regard I adopt the reasoning of Justice Pepall in ***Canwest Publishing*** at paras. 60 to 61, which I need not read.

[13] The KERP agreements are therefore approved in the terms set out in paras. 3 to 6 of the draft order provided to me.

[14] I turn now to a consideration of the KERP charge sought by the company.

[15] The company applies for an order creating a charge on its fixed assets to secure its KERP obligations. The real controversy on this application is over the question of what priority that charge should have and in particular what priority that charge should have relative to the petitioner's pension obligations to its current and retired employees.

[16] Counsel for an ad hoc group of salaried employees and pensioners submits that this court has no jurisdiction to create a charge ranking in priority to statutory duties and remedies under claims for breach of fiduciary duty in respect of those statutory remedies owed to employees and pensioners.

[17] This controversy revisits the question of the priority granted to charges in para. 55 of the Restated and Amended Initial Order as further modified on February 14th, 2012. The relevant portions of that paragraph in the order are as follows:

> All of the charges [which included the charges in question] are paramount to and shall rank in priority to all other security interests, trusts, liens, mortgages, charges and encumbrances and claims of secured creditors, statutory or otherwise, whether existing as of the date hereof or arising in the future, including any and all deemed trusts (provincial or otherwise) including under the PBSA [Pension Benefits Standards Act], all claims in respect of breach of fiduciary duties and any future charges which may arise under s. 81.5 and 81.6 of the Bankruptcy and Insolvency Act (collectively, the "Encumbrances") in favour of any person.

[18] The ad hoc committee submits that there is no jurisdiction to grant such a sweeping priority over the pension and employment claims of its members and, alternatively, if I find that there is such jurisdiction, no case has been made out before me to exercise it.

[19] Turning to the question of jurisdiction. I am satisfied that I have the jurisdiction to grant the KERP charge as applied for. There is no specific provision in the ***Companies' Creditors Arrangement Act*** authorizing the creation of a charge to support the company's KERP obligations. I must therefore find such jurisdictions in the provisions of s. 11 as interpreted by the case law.

[20] Section 11 of the Act states:

> 11. Despite anything in the Bankruptcy and Insolvency Act or the Winding-up and Restructuring Act, if an application is made under this Act in respect of a debtor company, the court, on the application of any person interested in the matter, may, subject to the restrictions set out in this Act, on notice to any other person or without notice as it may see fit, make any order that it considers appropriate in the circumstances.

[21] In my view, the scope of the jurisdiction under s. 11 is very broad, subject of course to that jurisdiction being exercised to promote the purposes and objects of the ***CCAA***. I note in particular in this regard that s. 11 permits the making of an order notwithstanding the provisions of the ***Bankruptcy and Insolvency Act***.

[22] In this case I adopt the reasoning of the Ontario Court of Appeal and respectfully follow that reasoning, in the ***ATB Financial*** decision, which is the asset-backed paper decision, reported at 2008 ONCA 587 at paras. 48 to 51. I do not propose to read all of those paragraphs; however, I will read paras. 50 and 51 as I consider those paragraphs to be particularly applicable to the facts of this case:

> [50] The remedial purpose of the CCAA – as its title affirms – is to facilitate compromises or arrangements between an insolvent debtor company and its creditors. In **Chef Ready Foods Ltd. v. Hongkong Bank of Canada** (1990), 4 C.B.R. (3d) 311 at 318 (B.C.C.A.), Gibbs J.A. summarized very concisely the purpose, object and scheme of the Act:
>
> > Almost inevitably, liquidation destroyed the shareholders' investment, yielded little by way of recovery to the creditors, and exacerbated the social evil of devastating levels of unemployment. The government of the day sought, through the C.C.A.A., to create a regime whereby the principals of the company and the creditors could be brought together under the supervision of the court to attempt a reorganization or compromise or arrangement under which the company could continue in business.
>
> [51] The CCAA was enacted in 1933 and was necessary – as the then Secretary of State noted in introducing the Bill on First Reading—"because of the prevailing commercial and industrial depression" and the need to alleviate the effects of business bankruptcies in that context: see the statement of the Hon. C.H. Cahan, Secretary of State, *House of Commons Debates (Hansard)* (April 20, 1933) at 4091. One of the greatest effects of that Depression was what Gibbs J.A. described as "the social evil of devastating levels of unemployment". Since then, courts have recognized that the Act has a broader dimension than simply the direct relations between the debtor company and its creditors and that this broader public dimension must be weighed in the balance together with the interests of those most directly

> affected: see, for example, ***Elan Corp. v. Comiskey (Trustee of)***, (1990), 1 O.R. (3d) 289 (C.A.), per Doherty J.A. in dissent; ***Re Skydome Corp.*** (1998), 16 C.B.R. (4th) 125 (Ont. Gen. Div.); ***Re Anvil Range Mining Corp.*** (1998), 7 C.B.R. (4th) 51 (Ont. Gen. Div.).
>
> [52] In this respect, I agree with the following statement of Doherty J.A. in ***Elan***, *supra*, at pp. 306-307:
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> > . . . [T]he Act was designed to serve a "broad constituency of investors, creditors and employees".[3] Because of that "broad constituency" the court must, when considering applications brought under the Act, *have regard not only to the individuals and organizations directly affected by the application, but also to the wider public interest.* [Emphasis added.]

[23] In the asset-backed paper case, of course, the issue in question was whether the ***CCAA*** permitted the making of an order depriving one solvent person from suing another solvent person for civil wrongs which were within the exclusive jurisdiction of the provinces. The Court of Appeal upheld the decision of Mr. Justice Campbell of the Ontario Superior Court that such jurisdiction did exist and should be exercised on the particular facts in that case.

[24] On the basis of these authorities and others which I have considered, I am satisfied that I do have jurisdiction under s. 11 of the ***CCAA*** to make an order granting the priority sought on this application. Of course, that requires me to turn to a consideration of whether I should make such an order in the particular circumstances of this case.

[25] In this case I think the critical question is whether I should exercise the jurisdiction that I have found that I have. In addressing that question, I must consider whether the order sought promotes the object of the statute, that is, is the order necessary to promote a successful reorganization of the debtor's affairs, and secondly, I think I should consider whether the order sought would unduly prejudice the rights of parties affected by it.

[26] In this case I have concluded that the order sought clearly promotes the objects of the statute. I have found that retention of key employees is an important, indeed vital, element in the company's reorganization efforts.

[27] Given the company's financial uncertainties, approval of a KERP without adequate security would be of little benefit to the key employees and provide little or no incentive for them to remain with the company.

[28] Another question on this application is whether the interests of the pensioners and salaried employees who oppose the application would be unduly prejudiced by the order sought. I have concluded that they are not. The salaried plan is a defined benefit plan. The company is obligated to make considerable payments towards the plan's solvency deficiencies over the next seven years. If the company is successful in reorganizing itself, it will be in a better position to make those payments. Further, current employees will of course benefit from continued employment and from the benefit of those payments to the pension plan of which they are currently members.

[29] With respect in particular to the KERP, I also fail to see how the proposed order causes any real prejudice to the employees and pensioners. The pensioners group which opposes the application has already agreed to an order granting the DIP financing priority over pension claims. In this case the LCs already in place if drawn upon will increase the amount outstanding under the DIP facility. If the order is not granted, the $8.26 million in LCs will, for all practical purposes, rank in priority to the pension claims in any event. I therefore can see no prejudice in the arrangements which are proposed with respect to the KERP, that is, converting the existing security in the form of letters of credit into a charge on the fixed assets of the company.

[30] In this case I also note that the authorized representative of pension beneficiaries, that is RSEA, supports the application, as I understand it, because it considers the application to be in the best interests of its constituency.

[31] In this case and in considering this particular issue, I am also satisfied that the circumstances justify invoking the doctrine of paramountcy. I think that the comments of Mr. Justice Morawetz at p. 48 to 50 of the ***Timminco*** decision are applicable to the facts of this case. In the interests of time, I do not think it necessary

to read those comments into the record. However, I will include a quote from paras. 48 to 50 if anyone seeks a copy of these reasons:

> [48] Counsel submits that the general paramountcy of the CCAA over provincial legislation was confirmed in ***ATB Financial v. Metcalf & Mansfield Alternative Investment II Corp.***, (2008), 45 C.B.R. (5th) 163 (Ont. C.A.) at para. 104. In addition, in ***Nortel Networks Corporation (Re)***, the Court of Appeal held that the doctrine of paramountcy applies either where a provincial and a federal statutory position are in conflict and cannot both be complied with, or where complying with the provincial law will have the effect of frustrating the purpose of the federal law and therefore the intent of Parliament. See ***Nortel Networks Corporation (Re)***, (2009), 59 C.B.R. (5th) 23 (Ont. C.A.).
>
> [49] It has long been stated that the purpose of the CCAA is to facilitate the making of a compromise or arrangement between an insolvent debtor company and its creditors, with the purpose of allowing the business to continue. As the Court of Appeal for Ontario stated in ***Stelco Inc., (Re)*** (2005), 75 O.R. (3d) 5, at para. 36:
>
> > In the CCAA context, Parliament has provided a statutory framework to extend protection to a company while it holds its creditors at bay and attempts to negotiate a compromised plan of arrangement that will enable it to emerge and continue as a viable economic entity, thus benefiting society and the company in the long run, along with the company's creditors, shareholders, employees and other stakeholders. The s. 11 discretion is the engine that drives this broad and flexible statutory scheme...
>
> [50] Further, as I indicated in ***Nortel Networks Corporation (Re)*** (2009), 55 C.B.R. (5th) 229 (Ont. S.C.J.), this purpose continues to exist regardless of whether a company is actually restructuring or is continuing operations during a sales process in order to maintain maximum value and achieve the highest price for the benefit of all stakeholders. Based on this reasoning, the fact that Timminco has not provided any plan for restructuring at this time does not change the analysis.

[32] In my view, the considerations set out in Mr. Justice Morawetz's decision apply with even greater force in this case given the vital importance to the survival of the petitioner's operations and the fact that the petitioner has continued to operate. I say that because in the ***Timminco*** case there was little or no prospect of there actually being a successful reorganization as opposed to a liquidation.

[33] For these reasons, I grant the order sought with respect to the charge and the priority sought for the charge for the KERP.

[34] I turn now to a consideration of the approval of the letter agreement with the financial advisors. In my view, similar considerations and issues are raised with respect to the financial advisor agreement as were raised under the KERP.

[35] The first issue is whether I should approve the engagement letter with Perella Weinberg Partners. Again, there seems to be little controversy about whether I should approve the engagement letter. It is quite clear that this is a complex restructuring requiring the assistance of sophisticated and experienced financial advisors.

[36] I am satisfied on the material before me and in particular on the basis of the analysis and comments of the Monitor that Perella Weinberg has the capability to deliver these services and has in fact delivered such valuable services and assistance to date.

[37] The Monitor has reviewed the commercial terms of the engagement letter and finds them to be reasonable. Management of the petitioner is also of the view that the terms are reasonable.

[38] I adopt the basis for concluding that the terms are reasonable on the evidence that I have heard and also on the analysis set out in para. 8.5 of the Monitor's report. I therefore approve the terms of the engagement letter.

[39] Turning to the question of whether I should create a charge with the priority sought, I note that with respect to the financial advisor's fees, there is clear statutory authority found in s. 11.52(1)(b) of the ***Companies' Creditors Arrangement Act.***

[40] Counsel for the petitioner submitted to me that the claims of the pensioners as described in para. 55 of the amended order are claims of secured creditors. I do not find it necessary to decide that issue. In my view, the analysis that I have gone through with respect to the jurisdiction to grant a KERP charge applies to the question of the priority to be given to the financial advisor's charge. However, again, with respect to the financial advisor's charge, the critical issue is whether I should exercise the jurisdiction that I do have to grant a charge with the priority sought.

[41] I have concluded that I should grant the charge with the priority sought by the applicant. In addressing this question, I think I must approach it from a practical and functional point of view. Under the terms of the engagement letter, the financial advisor's fees are payable monthly in advance. The charge in this case will help to ensure that the financial advisors are secure in providing services and do not find it necessary to withdraw their services or insist on payment in advance. More fundamentally, however, I consider it reasonable that those entities providing services to the company post filing to assist with its reorganization, which services are vital components of a restructuring, should have reasonable security for their fees for such services.

[42] If the priority for those fees is postponed to potential pension claims and claims for breach of fiduciary duty in respect of such pension claims, such security may well prove to be illusory or, at a minimum, not recoverable until after the conclusion of lengthy litigation.

[43] In reaching the conclusion to grant the priority, I have attempted to balance the interests of the petitioner and its stakeholders in effecting a restructuring against the possible prejudice to a particular group that may be affected by the order sought, in this case the employees and pensioners.

[44] In this case I am of the view that the position of those entitled to pension benefits will be best served by a successful restructuring. Such a restructuring will provide future employment and continued funding for the salaried plan. This reality was expressed by Mr. Justice Morawetz in the ***Timminco*** case at paras. 66 to 67 as follows:

> [66] In my view, in the absence of the court granting the requested super priority and protection, the objectives of the CCAA would be frustrated. It is not reasonable to expect that professionals will take the risk of not being paid for their services, and that directors and officers will remain if placed in a compromised position should the Timminco Entities continue CCAA proceedings without the requested protection. The outcome of the failure to provide these respective groups with the requested protection would, in my view, result in the overwhelming likelihood that the CCAA proceedings would come to an abrupt halt, followed, in all likelihood, by bankruptcy proceedings.

> [67] If bankruptcy results, the outcome for employees and pensioners is certain. This alternative will not provide a better result for the employees and pensioners. The lack of a desirable alternative to the relief requested only serves to strengthen my view that the objectives of the CCAA would be frustrated if the relief requested was not granted.

[45] In considering this quotation, I think it is important to remember that in ***Timminco*** the order which was sought was in fact a suspension of contributions to the pension plan, which contributions were of course contractually and statutorily required. In this case no such draconian remedy is sought with respect to the pensioners. I therefore think that the considerations set out by Mr. Justice Morawetz apply with even greater force to a consideration of the balancing of prejudice and benefit with respect to this aspect of the application.

[46] In this regard I note that the difficulty that would be faced by any charge holder whose claims ranked subsequent to the claims of pension beneficiaries. Their security would be precarious and problematic at best. This is because even on the situation as it now exists there is a very substantial potential claim on the part of those pension beneficiaries and it may well take lengthy and uncertain litigation to resolve that issue. These considerations, of course, I have addressed previously and have led me to the conclusion that postponing the charges in question to those claims would in a very real sense render the efficacy of those charges illusory.

[47] In my view, I also think that the orders sought in this case must be viewed as part of the overall attempt of the company to restructure its affairs. They must not be viewed as a series of individual applications or one-offs but as part of the overall restructuring process. Thus, while in theory it might be possible to suggest other arrangements for each individual step taken, such as other arrangements which might have been negotiated with the financial advisors or other arrangements which might have been negotiated with the key employees, such an approach and the efforts involved in negotiating better terms would frustrate the overall objectives of an expeditious, efficient restructuring process.

[48] As I have already indicated, I am satisfied that the retention of key employees and access to skilled professionals are essential to an effective restructuring effort in this case. I am also satisfied that the charges sought are reasonable and necessary to provide effective security to the key employees and the professionals.

[49] Accordingly, both applications are granted in the terms sought in the draft order that was submitted to me.

Sewell J.

The Honourable Mr. Justice Sewell

TAB 7

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

PETITIONERS

PLAN OF COMPROMISE AND ARRANGEMENT

PURSUANT TO THE *COMPANIES' CREDITORS ARRANGEMENT ACT* (CANADA)

concerning, affecting and involving

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

March 15, 2012

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PLAN OF COMPROMISE AND ARRANGEMENT

PURSUANT TO THE *COMPANIES' CREDITORS ARRANGEMENT ACT* (CANADA)

ARTICLE 1
INTERPRETATION

Section 1.1 Definitions

In the Plan (including the Schedules hereto), unless otherwise stated or unless the context otherwise requires:

"ABL Facility" means the revolving asset based loan facility issued pursuant to an amended and restated credit agreement dated as of May 31, 2011, by JP Morgan Securities LLC and CIBC Asset-Based Lending, Inc.;

"ABL Facility Claims" means all outstanding obligations owed to lenders under the ABL Facility;

"Administration Charge" means the charge granted pursuant to paragraph 39 of the Amended and Restated Initial Order, as more particularly set out therein, in favour of the Monitor, counsel to the Monitor, counsel to the Debtors, and counsel to the Directors;

"Affected Claim" means any Claim that is not an Unaffected Claim;

"Affected Creditor" means any Creditor having an Affected Claim in respect of and to the extent of such Affected Claim;

"Allowed" means, with respect to a Claim against any Debtor, (i) any Claim in respect of which a Proof of Claim has or is deemed to have been timely filed in accordance with the Claims Procedure Order and in respect of which no objection has been interposed within the applicable period fixed by the Claims Procedure Order, or (ii) any Claim that is Allowed pursuant to the Plan, Claims Procedure Order, or a Final Order of the Court;

"Amended and Restated Initial Order" means the Order of the Court dated January 31, 2012, as amended and restated on February 3, 2012, and as subsequently amended by further order of the Court, and as may be further amended, supplemented or varied by the Court;

"Business Day" means any day other than a Saturday, Sunday or a day on which banks in Vancouver, British Columbia, Toronto, Ontario, or New York, New York are authorized or obligated by applicable law to close or otherwise are generally closed;

"Cash Election" means an election made by a General Unsecured Creditor who is not otherwise deemed to be a Convenience Creditor in accordance with the terms of the Meetings Order, in full and final satisfaction of his, her or its Allowed Claim, to deem such Creditor's Claim equal to CAD $10,000 for distribution purposes, which election shall be deemed a vote in favour of the

resolution to approve the Plan at the Unsecured Creditors Meeting in the full filed amount of such Creditor's Allowed Claim;

"Cash Election Creditor" means a General Unsecured Creditor who is not otherwise deemed to be a Convenience Creditor who makes a valid Cash Election in accordance with the terms of the Meetings Order;

"Catalyst" means Catalyst Paper Corporation, a corporation incorporated under the CBCA;

"Catalyst Companies" means Catalyst and its Subsidiaries;

"CBCA" means the *Canada Business Corporations Act*, R. S. C. 1985, c. C-44, as amended;

"CCAA" means the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended;

"CCAA Charges" means, collectively, the Administration Charge, the DIP Lenders' Charge, the Critical Suppliers' Charge, the D&O Charge, the Financial Advisor Charge, the KERP Charge, and any other charge over the Debtors' assets created by other Order of the Court and included in "Charges" (as such term is defined in the Amended and Restated Initial Order and as such charges may be amended, modified or varied by further Order of the Court);

"CCAA Proceedings" means the CCAA proceedings commenced by the Debtors, being British Columbia Supreme Court Action No. S120712, on the Commencement Date pursuant to the Amended and Restated Initial Order;

"Chapter 15 Proceedings" means the proceedings commenced under chapter 15 of the U.S. Bankruptcy Code on the Commencement Date in the U.S. Court, Case No. 12-10221;

"Claim" means any Pre-Commencement Claim, Restructuring Claim or Directors/Officers Claim;

"Claims Bar Date" means 5:00 p.m. (prevailing Pacific Time) on April 18, 2012, or such other date as may be ordered by the Court;

"Claims Officer" shall have the meaning ascribed to such term in the Claims Procedure Order;

"Claims Procedure Order" means the Order of the Court, dated March 22, 2012, approving and directing the establishment of a procedure for filing Proofs of Claim and resolving Disputed Claims, as amended or varied by further Order;

"Class" means a category of Creditors holding Affected Claims as described more fully in ARTICLE 3 hereof;

"Class A Noteholders" means all holders of Class A Notes;

"Class A Notes" means the 11% senior secured notes due December 15, 2016, in the principal amount of US$280,434,000, issued by Catalyst pursuant to the Class A Notes Indenture;

"Class A Notes Indenture" means that certain indenture dated as of March 10, 2010, among Catalyst, the guarantors party thereto, and the First Lien Notes Indenture Trustee, as amended, modified or supplemented prior to the date hereof;

"Class B Noteholders" means all holders of Class B Notes;

"Class B Notes" means the Class B 11% senior secured notes due December 15, 2016, in the principal amount of US$110,000,000, issued by Catalyst pursuant to the Class B Notes Indenture;

"Class B Notes Indenture" means that certain indenture dated as of May 19, 2010, among Catalyst, the guarantors party thereto, and the First Lien Notes Indenture Trustee, as amended, modified or supplemented prior to the date hereof;

"Commencement Date" means January 31, 2012;

"Conditions Precedent" means those conditions precedent to the effectiveness of the Plan set forth in Section 5.1 hereof;

"Consenting Noteholders" means the Initial Supporting Noteholders and all other Noteholders that have signed a joinder to the Restructuring and Support Agreement;

"Convenience Cash Amount" means, in respect of the Allowed Claims of General Unsecured Cash Creditors, cash in an amount equal to 50% of such Creditor's Allowed Claim for distribution purposes, subject to the Maximum Convenience Claims Pool and the terms hereof;

"Convenience Claim" means a General Unsecured Claim equal to or less than CAD $10,000;

"Convenience Creditor" means a holder of a Convenience Claim;

"Convenience Share Election" means an election made by a Convenience Creditor in accordance with the terms of the Meetings Order to receive, in full and final satisfaction of his, her or its Allowed Claim, such Creditor's pro rata share of New Common Shares and Warrants allocable to Unsecured Creditors pursuant to the Plan, which election shall be deemed a vote in favour of the resolution to approve the Plan at the Unsecured Creditors Meeting to the extent of such Creditor's Allowed Claim;

"Convenience Share Election Creditor" means a Convenience Creditor who makes a Convenience Share Election in accordance with the terms of the Meetings Order;

"Court" means the Supreme Court of British Columbia;

"Creditor" means any Person having a Claim and includes, without limitation, the transferee or assignee of a transferred Claim that is recognized as a Creditor in accordance with paragraph 35 of the Claims Procedure Order, or a trustee, liquidator, receiver, manager, or other Person acting on behalf of such Person;

"Critical Supplier Order" means that certain Order of the Court, dated February 6, 2012, as may be amended and restated;

"Critical Suppliers" shall have the meaning set forth in paragraph 25 of the Amended and Restated Initial Order, as amended and restated in the Critical Supplier Order, and as may be further amended and restated by Order of the Court;

"Critical Suppliers' Charge" shall have the meaning set forth in paragraph 25 of the Amended and Restated Initial Order, as amended and restated in the Critical Supplier Order, and as may be further amended and restated by Order of the Court;

"D&O Charge" means the charge in favour of the directors and officers of the Debtors granted pursuant to paragraph 29 of the Amended and Restated Initial Order, paragraph 3 of the Court's Order dated February 14, 2012, and paragraph 1 of the Court's Order dated March 8, 2012, as more particularly set out therein;

"Debtors" means Catalyst and the following subsidiaries of Catalyst: 0606890 B.C. Ltd., Catalyst Paper General Partnership, Catalyst Paper Energy Holdings Inc., Catalyst Pulp and Paper Sales Inc., Catalyst Pulp Operations Limited, Catalyst Pulp Sales Inc., Elk Falls Pulp and Paper Limited, Pacifica Poplars Ltd., Catalyst Paper Holdings Inc., Catalyst Paper Recycling Inc., Catalyst Paper (Snowflake) Inc., Catalyst Paper (USA) Inc., Pacifica Papers Sales Inc., Pacifica Papers USA Inc., Pacifica Poplars Inc. and The Apache Railway Company;

"DIP Agent" means JPMorgan Chase Bank, N.A., in its capacity as administrative agent under the DIP Credit Agreement;

"DIP Credit Agreement" means that certain agreement dated as of February 7, 2012, among the Debtors, the DIP Agent, and the DIP Lenders;

"DIP Facility" means the credit facility approved by the Court pursuant to paragraph 41 of the Amended and Restated Initial Order;

"DIP Facility Claims" means all outstanding obligations owed to the DIP Lenders under the DIP Credit Agreement;

"DIP Lenders" means the DIP Agent as lender and the other lenders from time to time party to the DIP Credit Agreement;

"DIP Lenders' Charge" means the charge in favour of the DIP Lenders granted pursuant to paragraph 45 of the Amended and Restated Initial Order, as more particularly set out therein;

"Director" means any Person who is or was, or may be deemed to be or have been, whether by statute, operation of law or otherwise, a director of any one or more of the Debtors;

"Directors/Officers Claim" means any right or claim of any Person against one or more of the Directors and/or Officers that relates to a Pre-Commencement Claim or a Restructuring Claim, howsoever arising, for which the Directors and/or Officers are by statute or otherwise by law liable to pay in their capacity as Directors and/or Officers or in any other capacity;

"Disputed" means, with respect to an Affected Claim, the amount of an Affected Claim (including a contingent Affected Claim which may crystallize upon the occurrence of an event or events occurring after the Commencement Date) or such portion thereof which is not yet Allowed, which is disputed and which is subject to adjudication in accordance with the Claims Procedure Order;

"Disputed Claims Reserve" means the reserve, if any, to be established and maintained by the Debtors or the Monitor, as applicable, which shall be initially comprised of the following:

a. cash in an aggregate amount equal to the sum of all Convenience Cash Amounts payable pursuant to the terms hereof, subject to the Maximum Convenience Claims Pool, that would have been distributed on the Initial Distribution Date in respect of the Disputed Claims of General Unsecured Cash Creditors, if such Disputed Claims had been Allowed Claims as of such date; and

b. the New Common Shares and the Warrants that would have been distributed on the Initial Distribution Date in respect of the Disputed Claims of (i) General Unsecured Share Creditors and, (ii) solely to the extent the Maximum Convenience Claims Pool is exceeded, General Unsecured Cash Creditors, if such Disputed Claims had been Allowed Claims as of such date;

which amount, or such lesser amount as the Court may order, shall be held by the Debtors or the Monitor, as applicable, in escrow for distribution in accordance with the Plan;

"Distribution Date" means the date or dates from time to time set in accordance with the provisions of the Plan to effect distributions in respect of the Allowed Claims, including the Final Distribution Date but excluding the Initial Distribution Date;

"DTC" means The Depository Trust Company, through its nominee company Cede & Co.;

"Effective Date" means the Business Day, which date shall be acceptable to the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, and in accordance with the Restructuring and Support Agreement, on which (i) the Conditions Precedent have been satisfied, fulfilled or waived in accordance with the terms hereof, as applicable, and (ii) the Monitor has completed and filed its certificate with the Court in accordance with Section 5.3 hereof;

"Effective Time" means the time on the Effective Date when the Monitor has filed its certificate with the Court in accordance with Section 5.3 hereof;

"Electing Noteholder" means any Noteholder who would otherwise have become a "control person" under applicable Canadian securities laws immediately following the Effective Time solely as a result of the Plan who elects, by giving notice in form and manner described in Section 6.6 hereof, to receive the Exchange Warrants instead of Excess New Common Shares;

"Eligible Holder" means a holder of First Lien Notes or Unsecured Notes who is (a) a resident of Canada for the purposes of the Tax Act and any applicable income tax treaty, holding First

Lien Notes or Unsecured Notes that meet the definition of "eligible property" for the purposes of the Tax Act, and who is not exempt from tax on income under the Tax Act, or (b) a non-resident of Canada for the purposes of the Tax Act and any applicable income tax treaty, holding First Lien Notes or Unsecured Notes that meet the definition of "eligible property" for the purposes of the Tax Act, and who would be subject to Canadian tax in respect of any gain realized on the disposition of First Lien Notes or Unsecured Notes under the Plan if no tax election described in Section 6.4 hereof were made in respect of such disposition, or (c) a partnership if one or more members of the partnership are described in (a) or (b);

"Equity Interests" means all common shares of Catalyst, including all options, warrants, rights or similar instruments derived from, relating to or convertible, exchangeable or exercisable for common shares, issued and outstanding as of the Effective Date immediately prior to the Effective Time;

"Excess New Common Shares" means such New Common Shares that an Electing Noteholder would have received immediately following the Effective Time that would have resulted in such Electing Noteholder holding in excess of 20% of the total New Common Shares issued on the Effective Date pursuant to the Plan;

"Exchange Warrants" means warrants exercisable commencing immediately after the Effective Time for no additional consideration, pursuant to an agreement between Catalyst and an Electing Noteholder, which agreement shall be in form and substance satisfactory to the Majority Initial Supporting Noteholders and the Initial Supporting Unsecured Noteholders, entitling such Electing Noteholder to acquire New Common Shares in an amount equal to the Excess New Common Shares such Electing Noteholder would otherwise have been entitled to receive pursuant to the Plan had they not elected to receive such warrants;

"Existing Shareholders" means all holders of Equity Interests;

"Exit Facility" means, to the extent necessary, an exit financing facility acceptable to the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders;

"Final Distribution Date" means a Business Day to be chosen by Catalyst, in consultation with the Monitor and acceptable to the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, on which the final distribution shall be made in respect of Allowed Claims, which date shall be a date after all Disputed Claims have been finally determined in accordance with the Claims Procedure Order;

"Final Order" means an Order, ruling or judgment of the Court, or any other court of competent jurisdiction, which has not been reversed, modified or vacated, and is not subject to any stay or appeal, and for which any and all applicable appeal periods have expired;

"Financial Advisor Charge" means the charge in favour of the Debtors' financial advisors, Perella Weinberg Partners L.P., granted pursuant to paragraph 12 of the Court's Order dated March 9, 2012, as more particularly set out therein;

"First Lien Noteholders" means all holders of First Lien Notes, including where applicable beneficial holders of First Lien Notes;

"First Lien Noteholders Meeting" means the meeting of the First Lien Noteholders to be held on the Meeting Date for the purpose of considering and voting on the Plan pursuant to the CCAA, and includes any adjournment, postponement or other rescheduling of such meeting in accordance with the Meetings Order;

"First Lien Notes" means, collectively, the Class A Notes and the Class B Notes;

"First Lien Notes Claims" means all Claims for amounts due in respect of the First Lien Notes, including without limitation outstanding principal and the First Lien Notes Unpaid Interest;

"First Lien Notes Claims Class" means the Class comprising the First Lien Noteholders;

"First Lien Notes Indenture Trustee" means, collectively, Wilmington Trust, National Association, as indenture trustee and Computershare Trust Company of Canada as collateral trustee;

"First Lien Notes Indentures" means the Class A Notes Indenture and the Class B Notes Indenture;

"First Lien Notes Unpaid Interest" means an amount equal to accrued and unpaid interest under the First Lien Notes as of the Effective Date, such interest calculated using the applicable interest rate under the First Lien Notes Indentures, which shall include, where applicable, interest calculated at the default rate thereunder;

"General Unsecured Cash Creditor" means, collectively, (i) Convenience Creditors who have not made a valid Convenience Share Election and (ii) Cash Election Creditors;

"General Unsecured Claims" means all Claims against any Debtor, including Convenience Claims, but not including Unsecured Notes Claims, that have not otherwise been satisfied through arrangements with the Debtors in accordance with the Amended and Restated Initial Order;

"General Unsecured Creditors" means holders of General Unsecured Claims;

"General Unsecured Share Creditor" means, collectively, (i) General Unsecured Creditors who are not Convenience Creditors and have not made a valid Cash Election and (ii) Convenience Share Election Creditors;

"Governmental Priority Claims" means all Claims that fall within section 37 of the CCAA;

"Governmental Entity" means any government, regulatory authority, governmental department, agency, commission, bureau, official, minister, Crown corporation, court, board, tribunal or dispute settlement panel or other law, rule or regulation-making organization or entity: (a) having or purporting to have jurisdiction on behalf of any nation, province, territory or state or any other geographic or political subdivision of any of them; or (b) exercising, or entitled

or purporting to exercise any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power;

"Indenture Trustees" means the First Lien Notes Indenture Trustee and the Unsecured Notes Indenture Trustee;

"Information" means information set forth or incorporated in Catalyst's public disclosure documents filed with applicable Canadian securities regulators and the Securities and Exchange Commission under applicable securities legislation prior to March 15, 2012, or otherwise disclosed by Catalyst in writing to each of the Initial Supporting Noteholders under the Restructuring and Support Agreement prior to March 15, 2012;

"Initial Distribution Date" means a Business Day, as soon as practicable after the Effective Date, to be chosen by Catalyst, in consultation with the Monitor and acceptable to the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, on which the first distribution shall be made in respect of Allowed Claims;

"Initial Supporting First Lien Noteholders" means each First Lien Noteholder who has executed the Restructuring and Support Agreement as of March 11, 2012, in respect of its First Lien Notes;

"Initial Supporting Noteholders" means the Initial Supporting First Lien Noteholders and the Initial Supporting Unsecured Noteholders;

"Initial Supporting Unsecured Noteholders" means each Unsecured Noteholder who has executed the Restructuring and Support Agreement as of March 11, 2012, in respect of its Unsecured Notes;

"Intercompany Claim" means any Claim of a Debtor against another Debtor or a non-Debtor Subsidiary against a Debtor;

"KERP" means Catalyst's key employee retention plan as approved by Order of this Court made March 9, 2012, and as shall be further amended as a Condition Precedent to the implementation of the Plan as set forth in Subsection 5.1(p) hereof;

"KERP Charge" means the charge in favour of the employee beneficiaries of the KERP granted pursuant to paragraph 6 of the Court's Order dated March 9, 2012, as more particularly set out therein;

"Law" or **"Laws"** means all federal, state and provincial codes, conventions, laws, ordinances, policies, by-laws, statutes, rules, regulations, principles of law and equity, orders, rulings, ordinances, judgments, injunctions, determinations, awards, decrees or other requirements and the terms and conditions of any grant of approval, permission, authority or license of any Governmental Entity or self-regulatory authority (including the TSX), and the term "applicable" with respect to such laws means such laws as are applicable to the referenced party or its business, undertaking, property or securities and emanate from a person having jurisdiction over the party or parties or its or their business, undertaking, property or securities;

"Lien" means any valid and enforceable mortgage, charge, pledge, assignment by way of security, lien, hypothec, security interest, deemed trust or other encumbrance granted or arising pursuant to a written agreement or statute or otherwise created by law;

"Management Incentive Plan" means any new management incentive plan approved by the new board of directors of reorganized Catalyst after the Effective Date;

"Majority Initial Supporting Noteholders" means a majority of the Noteholders who executed the Restructuring and Support Agreement as of March 11, 2012, where each such Noteholder will have one vote and a majority of votes will govern;

"Material Adverse Effect" means an event, change or occurrence that, individually or together with any other event, change or occurrence, has a material adverse impact on the financial condition, business or results of operations of the Catalyst Companies (taken as a whole) and shall include, without limitation, the disposition by any of the Catalyst Companies of any material asset without the prior written consent of the Consenting Noteholders; provided, however, that a Material Adverse Effect shall not include and shall be deemed to exclude the impact of: (A) changes in Laws of general applicability or interpretations thereof by courts or governmental or regulatory authorities, (B) any change in the paper industry generally, which does not disproportionately adversely affect the Catalyst Companies, (C) actions and omissions of the Catalyst Companies taken with the prior written consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, (D) the effects of compliance with the Restructuring and Support Agreement, including on the operating performance of the Catalyst Companies, (E) the negotiation, execution, delivery, performance, consummation, potential consummation or public announcement of the Restructuring and Support Agreement or the transactions contemplated by the Restructuring and Support Agreement, (F) changes in the market price or trading volume of the First Lien Notes, Unsecured Notes or Equity Interests (it being understood that any cause of any such change may be taken into consideration when determining whether a Material Adverse Effect has occurred); (G) any change in U.S. or Canadian interest rates or currency exchange rates unless such change has a disproportionate effect on the Catalyst Companies; (H) the CCAA Proceedings, the Chapter 15 Proceedings and related costs and expenses being incurred by Catalyst; (I) Catalyst entering into the DIP Credit Agreement; and (J) Catalyst's common shares being suspended from trading then delisted from the TSX effective March 8, 2012.;

"Maximum Convenience Claims Pool" means CAD $2,500,000, funded by the Debtors, which is the aggregate amount of cash available to pay all Convenience Cash Amounts;

"Meeting Date" means April 23, 2012;

"Meetings" means, collectively, the Unsecured Creditors Meeting and the First Lien Noteholders Meeting;

"Meetings Order" means the Order of the Court dated March 22, 2012, setting the Meeting Date, approving the procedures for the Meetings, and authorizing the dissemination of the documents relating thereto;

"Monitor" means PricewaterhouseCoopers Inc., in its capacity as Court-appointed Monitor pursuant to the Amended and Restated Initial Order;

"New ABL Facility" means any new ABL facility entered into on the Effective Date, acceptable to the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders;

"New ABL Facility Lender" means the lender(s) under the New ABL Facility;

"New Common Shares" means the new common shares of reorganized Catalyst to be issued pursuant to Section 6.2 hereof;

"New First Lien Coupon Notes" means the secured, first lien coupon notes to be issued on the Effective Date pursuant to Section 6.2 hereof;

"New First Lien Notes" means the secured, first lien notes to be issued on the Effective Date pursuant to Section 6.2 hereof;

"New First Lien Notes Indenture" means the indenture, dated as of the Effective Date, among Catalyst, the guarantors party thereto, and the First Lien Notes Indenture Trustee, pursuant to which the New First Lien Notes and the New First Lien Coupon Notes will be issued, as may be amended, modified or supplemented, which shall be in form and substance acceptable to the Majority Initial Supporting Noteholders and the First Lien Notes Indenture Trustee;

"New First Lien Notes Security" means the guarantees and security to be provided under the New First Lien Notes Indenture;

"New Labour Contracts" means the new labour agreements ratified by the Pulp, Paper and Woodworkers Union of Canada (**"PPWC"**) and the Communications, Energy and Paperworkers Union of Canada (**"CEP"**);

"Noteholders" means, collectively, the First Lien Noteholders and the Unsecured Noteholders;

"Officer" means any Person who is or was, or may be deemed to be or have been, whether by statute, operation of law or otherwise, an officer of any one or more of the Debtors;

"Order" means any order of the Court, or another court of competent jurisdiction, in these proceedings;

"Person" means any individual, firm, partnership, joint venture, venture capital fund, association, trust, trustee, executor, administrator, legal personal representative, estate, group, body corporate (including a limited liability company and an unlimited liability company), corporation, unincorporated association or organization, governmental authority, syndicate or other entity, whether or not having legal status;

"Plan" means this Plan of Compromise and Arrangement filed by the Debtors pursuant to the CCAA, including the Schedules hereto, as may be amended, varied or supplemented hereafter in accordance with the terms hereof or made at the direction of the Court in the Sanction Order with

the consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders;

"Plan Equity Value" means $74,500,000;

"Plan Securities" means the New Common Shares, the New First Lien Notes, the New First Lien Coupon Notes, any Exchange Warrants and the Warrants, to be issued pursuant to Section 6.2 hereof and distributed pursuant to Section 6.3 hereof;

"Post-Filing Interest and Costs" means all interest other than the Unpaid Interest accrued or accruing on or after the Commencement Date on or in respect of an Affected Claim and all costs and expenses incurred on or after Commencement Date pursuant to or in respect of an Affected Claim;

"Pre-Commencement Claim" means any right or claim of any Person that may be asserted or made in whole or in part against the Debtors (or any of them), whether or not asserted or made, in connection with any indebtedness, liability or obligation of any kind whatsoever, and any interest accrued thereon or costs payable in respect thereof, in existence on, or which is based on, an event, fact, act or omission which occurred in whole or in part prior to the Commencement Date, at law or in equity, by reason of the commission of a tort (intentional or unintentional), any breach of contract or other agreement (oral or written), any breach of duty (including, without limitation, any legal, statutory, equitable or fiduciary duty), any right of ownership of or title to property or assets or right to a trust or deemed trust (statutory, express, implied, resulting, constructive or otherwise) or for any reason whatsoever against any of the Debtors or any their property or assets, and whether or not any indebtedness, liability or obligation is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known or unknown, by guarantee, surety or otherwise, and whether or not any right or claim is executory or anticipatory in nature including any right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action whether existing at present or commenced in the future, together with any other rights or claims not referred to above that are or would be claims provable in bankruptcy had the Debtors (or any one of them) become bankrupt on the Commencement Date, and for greater certainty, includes any Tax Claim; *provided, however*, that "Pre-Commencement Claim" shall not include an Unaffected Claim or any contingent liabilities that may be crystallized in the future under any applicable environmental laws of British Columbia arising from the Debtors' operations and undertakings at Powell River, Port Alberni and Crofton, all situated in the Province of British Columbia;

"Prior CBCA Proceeding" means the Debtors' in and out of court restructuring efforts pursuant to the CBCA, including the formulation, preparation, dissemination, and negotiation of a plan of arrangement and the filing of a proceeding in this Court;

"Proof of Claim" means the form to be completed and filed by a Creditor, in accordance with the Claims Procedure Order, setting forth its proposed Claim(s);

"Record Date" means March 16, 2012;

"Registered Shareholder" means a holder of Equity Interests as shown on the securities register maintained by or on behalf of Catalyst;

"Released Parties" means, collectively, each in their respective capacities as such, (i) the Officers, employees, legal and financial advisors, and other representatives of the Debtors as of the Commencement Date; (ii) the Directors and their legal and financial advisors; (iii) the First Lien Notes Indenture Trustee, the First Lien Notes Indenture Trustee's legal advisors, and the First Lien Noteholders; (iv) the members of the Steering Group and any other Initial Supporting Noteholders and their legal and financial advisors; (v) the Initial Supporting Unsecured Noteholders and their legal and financial advisors; (vi) the Unsecured Notes Indenture Trustee and the Unsecured Noteholders; (vii) the Monitor and their legal advisors; and (viii) current and former holders of Equity Interests;

"Required Majority" means, with respect to each Voting Class, a majority in number of Affected Creditors who represent at least two-thirds in value of the Allowed Claims of Affected Creditors who actually vote or are deemed to have voted pursuant to the Meetings Order on the resolution approving the Plan (in person, by proxy or by ballot) at the Meetings, which tally may include, subject to an Order of the Court which may be sought after the Meeting Date, the Claims of other Unsecured Creditors that may be deemed by such Order to vote in favour of the resolution approving the Plan;

"Restructuring and Support Agreement" means the Restructuring and Support Agreement, dated March 11, 2012, among Catalyst, certain of its Subsidiaries, and the Consenting Noteholders;

"Restructuring Claim" means any right or claim of any Person against the Debtors (or any one of them) in connection with any indebtedness, liability or obligation of any kind whatsoever owed by the Debtors (or any one of them) to such Person arising out of the restructuring, disclaimer, resiliation, termination, or breach on or after the Commencement Date of any contract, employment agreement, lease or other agreement or arrangement, whether written or oral, and whether such restructuring, disclaimer, resiliation, termination or breach took place or takes place before or after the date of the Claims Procedure Order, and includes for greater certainty any right or claim of an employee of any of the Debtors arising from a termination of its employment after the Commencement Date; provided, however, that "Restructuring Claim" shall not include an Unaffected Claim;

"Restructuring Expenses" means the expenses provided for in Section 6.11 hereof;

"Sanction Order" means an Order by the Court under the CCAA to, among other things, sanction, authorize and approve the Plan, in a form and substance satisfactory to the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders;

"Securities" means the First Lien Notes, the Unsecured Notes, and the Equity Interests;

"Steering Group" means the steering group of the First Lien Noteholders;

"Subsidiaries" means corporations or other Persons in which Catalyst has a direct or indirect controlling equity interest, including any subsidiary body corporate as defined in the CBCA;

"Tax" or **"Taxes"** means any and all amounts subject to a withholding or remitting obligation and any and all taxes, duties, fees, and other governmental charges, duties, impositions and liabilities of any kind whatsoever whether or not assessed by the Taxing Authorities (including any Claims by any of the Taxing Authorities), including all interest, penalties, fines, fees, other charges and additions with respect to such amount;

"Tax Act" means the *Income Tax Act* (Canada), as amended;

"Tax Claim" means any Claim against the Debtors (or any of them) for any Taxes in respect of any taxation year or period ending on or prior to the Commencement Date, and in any case where a taxation year or period commences on or prior to the Commencement Date, for any Taxes in respect of or attributable to the portion of the taxation period commencing prior to the Commencement Date and up to and including the Commencement Date. For greater certainty, a Tax Claim shall include, without limitation, any and all Claims of any Taxing Authority in respect of transfer pricing adjustments and any Canadian or non-resident Tax related thereto;

"Taxing Authorities" means Her Majesty the Queen, Her Majesty the Queen in right of Canada, Her Majesty the Queen in right of any province or territory of Canada, the Canada Revenue Agency, any similar revenue or taxing authority of each and every province or territory of Canada and any political subdivision thereof, and any Canadian or foreign governmental authority, and "Taxing Authority" means any one of the Taxing Authorities;

"TSX" means the Toronto Stock Exchange;

"Unaffected Claim" means, subject to further order of the Court:

a. any right or claim of any Person that may be asserted or made in whole or in part against the Debtors (or any of them) in connection with any indebtedness, liability or obligation of any kind which arose in respect of obligations first incurred on or after the Commencement Date (other than Restructuring Claims and Directors/Officers Claims) and any interest thereon, including any obligation of the Debtors toward creditors who have supplied or shall supply services, utilities, goods or materials or who have or shall have advanced funds to the Debtors on or after the Commencement Date, but only to the extent of their claims in respect of the supply of such services, utilities, goods, materials or funds on or after the Commencement Date;

b. any Claim secured by any CCAA Charge;

c. that portion of a Claim arising from a cause of action for which the Debtors are covered by insurance, but only to the extent of such coverage;

d. any ABL Facility Claim;

e. any DIP Facility Claim;

f. any Intercompany Claim;

g. any Claim referred to in sections 6(3), 6(5) and 6(6) of the CCAA;

h. any Governmental Priority Claim;

i. any claims with respect to reasonable fees and disbursements of counsel of any Debtor, the Monitor, a Claims Officer, any Assistant (as defined in paragraph 5 of the Amended and Restated Initial Order), or any financial advisor retained by any of the foregoing, as approved by the Court to the extent required;

j. any Claim of any employee of the Debtors (or any of them) employed by the Debtors (or any of them) as of the Commencement Date, but only in respect of a Claim for wages, including vacation pay and banked time;

k. any Claim secured by a Lien other than the First Lien Notes Claims; and

l. any Claim existing on the Commencement Date that has been satisfied, cured or rectified on or before the date of the Sanction Order;

"Unpaid Interest" means, collectively, the First Lien Notes Unpaid Interest and the Unsecured Notes Unpaid Interest;

"Unsecured Claims" means the Unsecured Notes Claims and the General Unsecured Claims, including Convenience Claims;

"Unsecured Claims Class" means the Class comprising the Unsecured Claims;

"Unsecured Creditors" means the Unsecured Noteholders and the General Unsecured Creditors;

"Unsecured Creditors Meeting" means the meeting of the Unsecured Creditors to be held on the Meeting Date for the purpose of considering and voting on the Plan pursuant to the CCAA, and includes any adjournment, postponement or other rescheduling of such meeting;

"Unsecured Noteholders" means all holders of Unsecured Notes, including where applicable beneficial holders of Unsecured Notes;

"Unsecured Notes" means the 7⅞ % senior notes due March 1, 2014, in the principal amount of $250,000,000 issued by Catalyst pursuant to the Unsecured Notes Indenture;

"Unsecured Notes Claims" means all Claims for amounts due in respect of the Unsecured Notes, including without limitation outstanding principal and the Unsecured Notes Unpaid Interest;

"Unsecured Notes Indenture" means that certain indenture, dated as of March 23, 2004, among Catalyst, the guarantors party thereto and the Unsecured Notes Indenture Trustee, as trustee, as amended, modified or supplemented prior to the date hereof;

"Unsecured Notes Indenture Trustee" means Wells Fargo Bank, National Association;

"Unsecured Notes Unpaid Interest" means an amount equal to the accrued and unpaid interest under the Unsecured Notes as of the Effective Date, such interest calculated using the applicable contract rate under the Unsecured Notes Indenture;

"U.S. Bankruptcy Code" means title 11 of the United States Code, as amended;

"U.S. Court" means the United States Bankruptcy Court for the District of Delaware;

"Voting Classes" means the Unsecured Claims Class and the First Lien Notes Claims Class;

"Warrants" means the warrants, with a cashless exercise feature, exercisable in the four year period following the Effective Date for 15% of the fully diluted New Common Shares as of the Effective Date at a strike price equal to the Plan Equity Value plus 50%, to be issued on the Effective Date pursuant to Section 6.2 hereof; and

"Warrant Agreement" means the warrant agreement to be entered into among Catalyst and a warrant agent designated by the Debtors, the Majority Initial Supporting Noteholders, and the Initial Supporting Unsecured Noteholders, on or before the Effective Date, pursuant to which the Warrants will be issued, as may be amended, modified or supplemented, which shall be in form and substance satisfactory to the Majority Initial Supporting Noteholders and the Initial Supporting Unsecured Noteholders.

Section 1.2 Accounting Terms.

All accounting terms not otherwise defined herein shall have the meaning ascribed to them in accordance with Canadian generally accepted accounting principles including those prescribed by the Canadian Institute of Chartered Accountants.

Section 1.3 Articles of Reference

The terms "hereof", "hereunder", "herein" and similar expressions refer to the Plan and not to any particular article, section, subsection, clause or paragraph of the Plan and include any agreements supplemental hereto. In the Plan, a reference to an article, section, subsection, clause or paragraph shall, unless otherwise stated, refer to an article, section, subsection, clause or paragraph of the Plan.

Section 1.4 Interpretation Not Affected by Headings

The division of the Plan into articles, sections, subsections, clauses and paragraphs and the insertion of a table of contents and headings are for convenience of reference only and shall not affect the construction or interpretation of the Plan.

Section 1.5 Date for Any Action

In the event that any date on which any action is required to be taken hereunder is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

Section 1.6 Time

All times expressed herein are local time in Vancouver, British Columbia, Canada unless otherwise stipulated.

Section 1.7 Definitions in the CCAA

A word or words with initial capitalized letters used herein and not defined herein but defined in the CCAA shall have the meaning ascribed thereto in the CCAA as of the date hereof unless the context otherwise requires.

Section 1.8 Number, Etc.

In the Plan, where the context requires, a word importing the singular number shall include the plural and vice versa; a word or words importing gender shall include all genders and the words "including" and "includes" mean "including (or includes) without limitation".

Section 1.9 Currency

Unless otherwise specified, all references to monetary amounts are to lawful currency of the United States of America. All Affected Claims denominated in a currency other than U.S. Dollars shall, for the purposes of the Plan, be converted to and shall constitute obligations in U.S. dollars, such calculation to be effected using the Bank of Canada noon spot rate on the Commencement Date (exchange rate conversion on such date was: USD $1.00 = CAD $1.0052).

Section 1.10 Statutory References

Except as provided herein, any reference in the Plan to a statute includes all regulations and rules made thereunder, all amendments to such statute, regulation or rules in force from time to time, and any statute, regulation or rule that supplements or supersedes such statute or regulation.

Section 1.11 Governing Law

The Plan shall be governed by and construed in accordance with the Laws of the Province of British Columbia and the federal Laws of Canada applicable thereto. All questions as to the interpretation or application of the Plan and all proceedings taken in connection with the Plan shall be subject to the exclusive jurisdiction of the Court.

ARTICLE 2
PURPOSE AND EFFECT OF PLAN

Section 2.1 Purpose

The purpose of the Plan is to effect a compromise of Affected Claims to enable the Debtors' businesses to continue, and to maximize the recovery of the Debtors' Creditors. Ensuring the continuance of the Debtors' businesses will significantly benefit all stakeholders, including the Debtors' many current and former employees, trade suppliers, customers, and the communities in which the Debtors operate. The successful implementation of this Plan will provide greater benefits to all Persons with an economic interest in the Debtors than would result from the bankruptcy of the Debtors, which benefits will have far-reaching positive effects on the economy as a whole.

Section 2.2 Agreement

The Plan is made pursuant and subject to the provisions of the Restructuring and Support Agreement.

Section 2.3 Affected Creditors

On the Effective Date, the Plan will be binding on each Debtor and all Affected Creditors to the extent of their Affected Claims. For greater certainty, the terms "Claim" and "Affected Claim" do not include any obligation of the Debtors to any current employee, former employee, retired employee, pension plan member or beneficiary, or a pension plan administrator, in respect of any registered pension plan, non-registered pension plan, health benefit or any other employment-related or post-retirement entitlement or benefit in effect at the Commencement Date including, without limitation, any pension "bridging" benefits and "top-up" benefits and such obligations shall not be affected by the Plan.

Section 2.4 Existing Shareholders

On the Effective Date, the Plan will be binding on Catalyst and all Existing Shareholders. Existing Shareholders shall not receive a distribution under the Plan or otherwise recover anything in respect of their Equity Interests. All existing Equity Interests shall be cancelled and extinguished on the Effective Date.

Section 2.5 Unaffected Persons

Holders of Unaffected Claims will not be affected, to the extent of their Unaffected Claims, by the compromises set out in the Plan.

ARTICLE 3
CLASSIFICATION AND TREATMENT OF AFFECTED CLAIMS

Section 3.1 Classification of Affected Claims

All Affected Claims are classified into two Voting Classes—the First Lien Notes Claims Class and the Unsecured Claims Class.

The First Lien Notes Claims Class consists of the First Lien Notes Claims. The Unsecured Claims Class consists of both the Unsecured Notes Claims and the General Unsecured Claims.

Section 3.2 Treatment of Affected Claims

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 as of the Effective Date 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 as of the Effective Date 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 B 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 as of the Effective Date 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 two (2) times the amount of cash to be 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.

New Common Shares that would otherwise have been allocable to General Unsecured Cash Creditors shall not be issued under the Plan. Such non-issuance will result in an adjustment to the number of New Common Shares to be issued and the percentage distribution to Creditors set forth in this Section 3.2.

Section 3.3 Voting by Affected Creditors

First Lien Noteholders shall be entitled to attend and vote at the First Lien Noteholders Meeting. Unsecured Creditors, including Unsecured Noteholders and General Unsecured Creditors (including Convenience Creditors) shall be entitled to attend and vote at the Unsecured Creditors Meeting; *provided, however*, that, in accordance with the Meetings Order, Creditors who have made a valid Cash Election or Convenience Share Election shall be deemed to vote in favour of the Plan and shall not be entitled to vote at the Unsecured Creditors Meeting. For greater certainty, only those Noteholders who have beneficial ownership of a Claim as of the Record Date shall be entitled to vote at the Meetings pursuant to and in accordance with the Meetings Order.

Affected Creditors with Disputed Claims shall be entitled to attend the Meetings and cast a vote in respect of the Plan. The Monitor shall keep a separate record and tabulation of any votes cast in respect of Disputed Claims. The Monitor shall report the result of the vote and the tabulation of votes of Allowed Claims and Disputed Claims to the Court and, if the decision by Affected Creditors whether to approve or reject the Plan is affected by the votes cast in respect of the Disputed Claims, Catalyst shall seek direction from the Court in respect thereof. The fact that a Disputed Claim is allowed for voting purposes shall not preclude Catalyst or the Monitor from disputing the Disputed Claim for distribution purposes.

Section 3.4 Approval by Affected Creditors

In order to be approved by the Affected Creditors, the Plan must receive an affirmative vote, in accordance with the provisions of the Meetings Order, by the Required Majority in each Voting Class.

Section 3.5 Unaffected Claims

Notwithstanding anything to the contrary herein, no Creditor shall be entitled to vote or receive any distributions under the Plan in respect of an Unaffected Claim. Nothing in the Plan shall affect the Debtors' rights and defences with respect to any Unaffected Claim.

Section 3.6 Disputed Claims

Affected Creditors with Disputed Claims on the Effective Date shall not be entitled to receive any distribution hereunder with respect to such Disputed Claims unless and until such Claim becomes an Allowed Claim. A Disputed Claim shall be referred for resolution in the manner set out in the Claims Procedure Order. Distributions pursuant to Section 6.5 shall be paid in respect of any Disputed Claim that is finally resolved or settled and becomes an Allowed Claim in accordance with the Claims Procedure Order.

Section 3.7 Extinguishment of Claims

As of and from the Effective Time and in accordance with the provisions of the Sanction Order, the treatment of Affected Claims under the Plan (including Allowed Claims and Disputed Claims) shall be final and binding on the Debtors and all Affected Creditors (and their respective heirs, executors, administrators, legal personal representatives, successors and assigns) and all

Affected Claims shall be released and discharged as against the Debtors and the Debtors shall thereupon be released from all Affected Claims, other than the obligations of the Debtors to make payments in the manner and to the extent provided for in the Plan; *provided, however*, that such discharge and release shall be without prejudice to the right of a holder of a Disputed Claim to prove such Disputed Claim so that such Disputed Claim becomes an Allowed Claim entitled to receive consideration under Section 6.3 hereof.

Section 3.8 Set Off

Despite any other provision of the Plan, the law of set off applies to all claims made by or against a Debtor (including Claims) to the same extent as if such Debtor were plaintiff or defendant, as the case may be. However, a Person may only set off as against a Claim, including a Restructuring Claim, an obligation of such Person to the Debtor (that is otherwise the proper subject of set off) and that existed on or before the Commencement Date and a Person may only set off as against a claim by such Person against a Debtor arising after the Commencement Date, an obligation of such Person to such Debtor arising after the Commencement Date (that is otherwise the proper subject of set off).

Section 3.9 Governmental Priority Claims

Within six months after the date of the Sanction Order, each Debtor incorporated in Canada shall pay in full to any applicable Governmental Entities all amounts that were outstanding at the Commencement Date and are of a kind that could be subject to a demand under:

a. subsection 224(1.2) of the Tax Act;

b. any provision of the *Canada Pension Plan* or of the *Employment Insurance Act* that refers to subsection 224(1.2) of the Tax Act and provides for the collection of a contribution, as defined in the *Canada Pension Plan*, or an employee's premium, or employer's premium, as defined in the *Employment Insurance Act*, or a premium under Part VII.1 of that Act, and of any related interest, penalties or other amounts; or

c. any provision of provincial legislation that has a similar purpose to subsection 224(1.2) of the Tax Act, or that refers to that subsection, to the extent that it provides for the collection of a sum, and of any related interest, penalties or other amounts, where the sum:

    i. has been withheld or deducted by a person from a payment to another person and is in respect of a tax similar in nature to the income tax imposed on individuals under the Tax Act; or

    ii. is of the same nature as a contribution under the *Canada Pension Plan* if the province is a "province providing a comprehensive pension plan" as defined in subsection 3(1) of the *Canada Pension Plan* and the provincial legislation establishes a "provincial pension plan" as defined in that subsection.

ARTICLE 4
SANCTION ORDER

Section 4.1 Application for Sanction Order

As soon as reasonably practicable following the approval of the Plan by the Required Majorities, the Debtors shall bring a motion seeking the Sanction Order for prompt hearing by the Court and in accordance with the timeline set forth in the Restructuring and Support Agreement.

Section 4.2 Effect of the Sanction Order

In addition to approving and sanctioning the Plan, and subject to the discretion of the Court, the Sanction Order shall, among other things and without limitation:

a. declare that:

   i. the Plan has been approved by the Required Majorities of Affected Creditors in conformity with the CCAA;

   ii. the Debtors have complied with the provisions of the CCAA and the Orders made in the CCAA Proceedings in all respects;

   iii. the Court is satisfied that the Debtors have not done nor purported to do anything that is not authorized by the CCAA; and

   iv. the Plan and transactions contemplated thereby are procedurally and substantively fair and reasonable to Affected Creditors;

b. direct and authorize the Debtors and the Monitor to fulfill their obligations under the Plan, including to complete the transactions and distributions contemplated under the Plan;

c. confirm the effect of the Claims Procedure Order, including, without limitation, the effect of the Claims Bar Date, and the releases, waivers, injunctions and prohibitions provided thereunder;

d. confirm the effect of the Meetings Order;

e. effective on the Effective Date, declare that the compromises, waivers, releases and injunctions effected by the Plan are approved, binding, and effective as herein set out on all Affected Creditors, Existing Shareholders, and all other Persons affected by the Plan;

f. continue the stay of proceedings contained in the Amended and Restated Initial Order until the CCAA Proceedings are terminated by Order of the Court;

g. confirm that the CCAA Charges as provided in the Amended and Restated Initial Order shall continue in effect until such time as the CCAA Proceedings are terminated and all obligations secured thereby are paid in full or as may be otherwise secured, satisfied or arranged;

h. effective on the Effective Date, upon completion of the distribution of the Plan Securities pursuant to the Plan to the applicable Affected Creditors or into the Disputed Claims Reserve, and except as otherwise provided in the Plan, declare that all notes, shares, instruments, certificates, indentures, guarantees, and other documents or agreements evidencing the First Lien Notes Claims, the Unsecured Notes Claims, and Equity Interests, including, without limitation, the First Lien Notes, the Unsecured Notes, the First Lien Notes Indentures, and the Unsecured Notes Indenture, are deemed cancelled and are of no further force or effect, whether surrendered for cancellation or otherwise, and the obligations of the Debtors thereunder or in any way related thereto are satisfied and discharged, except to the extent expressly set forth in Section 6.07 of the Unsecured Notes Indenture and Section 6.06 of the First Lien Notes Indenture;

i. declare that the First Lien Notes Indenture Trustee shall be authorized to execute releases of the property and other assets included in the Collateral (as such term is defined in the First Lien Notes Indenture) from the Liens created by the Collateral Documents (as such term is defined in the First Lien Notes Indenture), in the forms prepared by the Debtors, at the written request of the Debtors (without the delivery of an officer's certificate or opinion), subject to paragraph (h) above;

j. effective as of the Effective Date, release all Post-Filing Interest and Costs;

k. declare that the appointment of the Claims Officer shall cease as of the Effective Time except with respect to matters to be completed pursuant to the Plan after the Effective Time (including the resolution of any Disputed Claims pursuant to the Claims Procedure Order);

l. declare that, as of and from the Effective Time and except to the extent expressly contemplated by the Plan, all obligations or agreements to which any Debtor is a party (including all equipment leases and real property leases) shall be and remain in full force and effect, unamended as of the Effective Date, unless terminated, disclaimed or repudiated by a Debtor in the CCAA Proceedings, and no Person who is a party to any such obligation or agreement shall, on or after the Effective Date, accelerate, terminate, rescind, refuse to renew, refuse to perform or otherwise repudiate its obligations thereunder, or enforce or exercise, or purport to enforce or exercise, any right (including any right of set off, combination of accounts, dilution, buy out, divestiture, forced purchase or sale option or other remedy) or make any demand under or in respect of any such obligation or agreement, by reason of:

i. any event or events which occurred on or before the Effective Date and is not continuing after the Effective Date or which is or continues to be suspended or waived under the Plan, which would have entitled any party thereto to enforce such rights or remedies (including defaults or events of default arising as a result of the insolvency of any Debtor);

ii. any Debtor having sought or obtained relief under the CCAA; or

iii. any compromises, arrangements, reorganizations or transactions effected pursuant to the Plan; and

m. effective on the Effective Date, permanently enjoin the commencement or prosecution, whether directly, derivatively or otherwise, of any demands, claims, actions, counterclaims, suits, judgements, or other remedy or recovery with respect to any indebtedness, liability, obligation or cause of action released, discharged or terminated pursuant to the Plan.

ARTICLE 5
CONDITIONS PRECEDENT TO PLAN IMPLEMENTATION

Section 5.1 Conditions of Plan Implementation

The implementation of the Plan is conditional on the satisfaction or waiver (subject to Section 5.2 hereof) on or before the Effective Date of the following conditions, in a manner satisfactory to Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders:

a. since December 31, 2011, there shall have been no Material Adverse Effect except as disclosed in the Information;

b. the following shall have occurred by the dates set forth below:

i. the Meetings shall have occurred no later than April 23, 2012;

ii. the Plan shall have been approved by the Required Majorities of each Voting Class;

iii. the Sanction Order shall have been obtained no later than April 25, 2012 in accordance with Section 4.2 hereof;

iv. Catalyst shall have obtained an Order from the U.S. Court under chapter 15 of the U.S. Bankruptcy Code recognizing that the Sanction Order is in full force and effect in the United States, which Order be satisfactory to the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, and shall have become a Final Order; and

v. the Sanction Order shall have become a Final Order;

or such later date as may be agreed to among the Debtors and the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, and in accordance with the Restructuring and Support Agreement;

c. there shall have been no breach in any material respect by the Debtors of any of the obligations, representations, warranties, or covenants of the Debtors set forth in the Restructuring and Support Agreement;

d. the New First Lien Notes Security shall have been executed and delivered, together with standard supporting authorizing documents, and legal opinions from counsel to the applicable Catalyst Companies, in form and content reasonably satisfactory to the Majority Initial Supporting Noteholders and the First Lien Notes Indenture Trustee, and registrations to perfect the liens created thereunder shall have been completed with the priority contemplated by the New First Lien Notes Indenture;

e. Catalyst shall have entered into agreements with respect to the New ABL Facility and Exit Facility, if any, which agreements shall be satisfactory to the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, and an intercreditor agreement entered into between the New ABL Facility Lender and the First Lien Noteholders or the First Lien Notes Indenture Trustee satisfactory to the Majority Initial Supporting Noteholders, subject to Section 5.2 hereof;

f. all amounts owing by Catalyst pursuant to or in respect of the ABL Facility Claims (including by payment into escrow with the Monitor of any such amounts disputed as owing) shall have been paid in full in cash and the discharge on or before implementation of all security with respect thereto;

g. the New First Lien Notes Indenture, New First Lien Notes Security, Warrant Agreement, and all related agreements and other documents necessary to consummate the Plan shall have become effective, subject only to implementation of the Plan;

h. all agreements and other documents and other instruments relating to the Plan shall be in form and content satisfactory to the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, as applicable and as set forth in the Restructuring and Support Agreement;

i. any applicable governmental, regulatory and judicial consents or orders, and other similar consents and approvals, and all filings with all governmental authorities, securities commissions and other regulatory authorities having jurisdiction, in each case to the effect necessary for the completion of the

transactions contemplated by the Plan or any aspect thereof, shall have been made, obtained or received and are not subject to any reversal or stay;

j. reorganized Catalyst shall be a reporting issuer in certain provinces of Canada;

k. the Debtors shall have taken all necessary corporate actions and proceedings in connection with the Plan, including the execution and filing of any articles of amendment or reorganization or other document to implement the Plan, which shall be in form and substance satisfactory to the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders;

l. all agreements and documents necessary to implement and give effect to the Plan shall have been executed and delivered by all relevant Persons;

m. all steps, conditions and documents necessary to the implementation of the Plan (including without limitation those set out above) are capable of being implemented on or before the Effective Date;

n. no action shall have been instituted and be continuing on the Effective Date for an injunction to restrain, a declaratory judgement in respect of, or damages on account of, or relating to, the Plan;

o. the PPWC and CEP shall have ratified the New Labour Contracts and such New Labour Contracts shall not have been objected to by the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, in accordance with the terms of the Restructuring and Support Agreement;

p. the letters of credit posted as collateral for the KERP shall have been cancelled in exchange for the KERP Charge, and all cash collateral with respect thereto returned to Catalyst. In addition, the KERP shall have been modified and a Court Order obtained approving same as follows:

   Solely with respect to the "Tier I" and "Tier II" beneficiaries of the KERP (as identified in the KERP), the retention payments scheduled under the KERP shall be made as follows:

   i. 45% (or $1.9 million) to be paid on December 31, 2012;

   ii. 25% (or $1 million) to be paid on December 31, 2013; and

   iii. 30% (or $1.3 million) to be paid in equal percentage as the percentage amortization of the New First Lien Coupon Notes;

or in another manner acceptable to the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders; and

q. the Restructuring Expenses incurred through and including the Effective Date shall have been paid in full or otherwise satisfied or arranged.

Section 5.2 Waiver of Conditions.

Any Condition Precedent other than any statutory requirements regarding the voting, approval and sanctioning of the Plan pursuant to the provisions of the CCAA may only be waived by the Debtors with the written consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, and, to the extent that any such waiver implicates any right or duty of the First Lien Notes Indenture Trustee under the First Lien Notes Indenture or the Unsecured Notes Indenture Trustee under the Unsecured Notes Indenture, the applicable Indenture Trustee.

Section 5.3 Monitor's Certificate

Upon being advised in writing by counsel for the Debtors and counsel for the Initial Supporting Noteholders that the Conditions Precedent have been satisfied or waived in accordance with Section 5.2 hereof and that the Plan is capable of being implemented, the Monitor shall file with the Court a certificate stating that all Conditions Precedent of the Plan have been satisfied or waived in accordance with the Plan and that the Plan is capable of being implemented forthwith.

Section 5.4 Failure to Satisfy Conditions Precedent

If the Conditions Precedent are not satisfied or waived in accordance with Section 5.2 hereof on or before the day which is 21 days after the date on which the Sanction Order is issued or such later date as may be specified by the Debtors (with the consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, and in accordance with the Restructuring and Support Agreement), the Plan shall not be implemented and the Plan and the Sanction Order shall cease to have any further force or effect.

ARTICLE 6
IMPLEMENTATION OF PLAN

Section 6.1 Cancellation of Securities and Indentures

On the Effective Date, upon completion of the distribution of the Plan Securities pursuant to the Plan to the applicable Affected Creditors or into the Disputed Claims Reserve, and except as otherwise provided in the Plan, all notes, shares, instruments, certificates, indentures, guarantees, and other documents or agreements evidencing the First Lien Notes Claims, the Unsecured Notes Claims, and Equity Interests, including, without limitation, the First Lien Notes, the Unsecured Notes, the First Lien Notes Indentures, and the Unsecured Notes Indenture, shall be deemed automatically cancelled and shall be of no further force or effect, whether surrendered for cancellation or otherwise, and the obligations of the Debtors thereunder or in any

way related thereto shall be satisfied and discharged, except to the extent expressly set forth in Section 6.02 of the Unsecured Notes Indenture and Section 6.06 of the First Lien Notes Indenture.

Section 6.2 Issuance of Plan Securities

1. New First Lien Notes and New First Lien Coupon Notes

On the Effective Date, the New First Lien Notes and the New First Lien Coupon Notes shall be issued pursuant to the New First Lien Notes Indenture.

2. New Common Shares

On the Effective Date, reorganized Catalyst shall issue 15,000,000 New Common Shares or as the same may be reduced in accordance with Section 3.2. Reorganized Catalyst shall be a reporting issuer in certain provinces in Canada and, on or as soon as reasonably practicable after the Effective Date, the New Common Shares and the Warrants shall be approved by the TSX or other securities exchange acceptable to the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, subject only to standard listing conditions.

3. Warrants

On the Effective Date, the Warrants shall be issued pursuant to and governed by the terms of the Warrant Agreement.

Section 6.3 Delivery and Allocation Procedures

1. Delivery and Allocation of Plan Securities

Delivery of certificates representing the Plan Securities to which the Affected Creditors are entitled under the Plan shall be made on or before the third (3rd) Business Day following the Effective Date.

The First Lien Notes and the Unsecured Notes are held by DTC. The delivery of interests in Plan Securities in exchange for First Lien Notes or Unsecured Notes, as the case may be, will be made through the facilities of DTC to DTC participants, who, in turn will make delivery of interests in such Plan Securities to the beneficial holders of such First Lien Notes or Unsecured Notes pursuant to standing instructions and customary practices. The Debtors and the Indenture Trustees will have no liability or obligation in respect of any deliveries from DTC, or its nominee, to DTC participants or to beneficial holders.

The delivery of interests in Plan Securities to General Unsecured Creditors in accordance with Section 3.2 hereof will be made by mailing physical certificates to such General Unsecured Creditors by pre-paid ordinary mail to the address specified in such Creditor's Claims Amount Notice (as such term is defined in the Claims Procedure Order) or Proof of Claim.

2. Delivery of Cash Consideration

Subject to the Disputed Claims Reserve to be held by the Monitor in escrow, on the Initial Distribution Date and each subsequent Distribution Date, the Monitor shall distribute to each Affected General Unsecured Cash Creditor with an Allowed General Unsecured Claim, such Creditor's Convenience Cash Amount (or its pro rata share of the Maximum Convenience Claims Pool in the event that the aggregated amount of all Convenience Cash Amounts exceeds the Maximum Convenience Claims Pool) by way of cheque sent by prepaid ordinary mail to the address specified in such Creditor's Claims Amount Notice (as such term is defined in the Claims Procedure Order) or Proof of Claim.

Section 6.4 Tax Election

An Eligible Holder who is receiving New Common Shares shall be entitled to make an income tax election pursuant to subsection 85(1) of the Tax Act or, if the holder is a partnership, subsection 85(2) of the Tax Act (and in each case, where applicable, the analogous provisions of provincial income tax law) with respect to the transfer of such holder's First Lien Notes or Unsecured Notes to Catalyst at the amount determined by such Eligible Holder, subject to the limitations set out in subsection 85(1) of the Tax Act (or any applicable tax legislation).

Section 6.5 Disputed Claims

1. No Distribution Pending Allowance

Notwithstanding any other provision of the Plan, no payments or distributions shall be made with respect to all or any portion of a Disputed Claim unless and to the extent it has become an Allowed Claim, in whole or in part.

2. Distributions After Disputed Claims Resolved

a. On the last Business Day of every month (or such other time as the Debtors may determine in consultation with the Monitor), the Debtors shall distribute, in accordance with Section 6.3 hereof, the appropriate portion of New Common Shares and/or Warrants in the Disputed Claims Reserve to each holder of a Disputed Claim (i) who is a General Unsecured Share Creditor, or (ii) only to the extent the aggregate of all Convenience Cash Amounts exceeds the Maximum Convenience Claims Pool, who is a General Unsecured Cash Creditor, which Claim has become an Allowed Claim on or before the third Business Day prior to a Distribution Date (other than the Final Distribution Date).

b. On the last Business Day of every month (or such other time as the Monitor may determine in its sole and unfettered discretion), the Monitor shall distribute in accordance with Section 6.3 hereof, the appropriate portion of cash in the Disputed Claims Reserve to each holder of a Disputed Claim who is a General Unsecured Cash Creditor, which Claim has become an Allowed Claim on or before the third Business Day prior to such Distribution Date.

c. On the Final Distribution Date, any balance that remains in the Disputed Claims Reserve shall revert to the reorganized Debtors.

Section 6.6 Exchange Warrants

Any Electing Noteholder may, by giving notice to Catalyst, with copies to counsel for the Initial Supporting Noteholders as set forth in Subsection 8.9(ii) hereof, in the form prescribed in the Meetings Order, such notice to be delivered to Catalyst on or prior to the date of the Meetings, elect to receive Exchange Warrants in lieu of any Excess New Common Shares such Noteholder would have otherwise received under the Plan in the absence of providing such notice. Delivery by Catalyst of Exchange Warrants exercisable for a number of New Common Shares equal to the number of Excess New Common Shares an Electing Noteholder would otherwise have received under the Plan but for delivering such notice will satisfy in full the obligation Catalyst would otherwise have had under the Plan to deliver such number of New Common Shares to the Electing Noteholder.

Section 6.7 Withholding Rights

Catalyst, the Monitor and/or the Indenture Trustees shall be entitled to deduct and withhold from any consideration or distribution otherwise payable to any Noteholder or General Unsecured Creditors such amounts as Catalyst, the Monitor and/or the Indenture Trustees are required to deduct and withhold with respect to such payment under Law. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the holder of the securities in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority. Catalyst, the Monitor and/or the Indenture Trustees are hereby authorized to sell or otherwise dispose of such portion of the consideration (including to exercise Exchange Warrants, if necessary, provided at no time shall an Electing Noteholder hold in excess of 20% of the New Common Shares) as is necessary to provide sufficient funds to Catalyst, the Monitor and/or the Indenture Trustees, as the case may be, to enable it to comply with such deduction or withholding requirement and Catalyst, the Monitor and/or the Indenture Trustees shall notify the holder thereof and remit any unapplied balance of the net proceeds of such sale.

Section 6.8 Calculations

All amounts of consideration to be received hereunder will be calculated to the nearest cent ($0.01). All calculations and determinations made by Catalyst for the purposes of and in accordance with the Plan, including, without limitation, the allocation of the consideration, shall be conclusive, final and binding upon the Affected Creditors and the Debtors.

Section 6.9 Initial Board of Directors of Reorganized Catalyst

On the Effective Date:

a. the initial board of directors of reorganized Catalyst shall be composed of seven members;

b. all existing members of the board shall be deemed to be removed;

c. five members of the initial board, designated by the Majority Initial Supporting Noteholders not less than ten days prior to the Effective Date, shall be deemed to be appointed as directors of reorganized Catalyst;

d. one member of the initial board, designated by the Initial Supporting Unsecured Noteholders not less than ten days prior to the Effective Date, shall be deemed to be appointed as a director of reorganized Catalyst; and

e. the Chief Executive Officer shall be deemed to be appointed as a director of reorganized Catalyst.

Section 6.10 Initial Management of Reorganized Catalyst

The senior management team upon and immediately following the consummation of the Plan shall be the same as the senior management team immediately prior to consummation of the Plan.

Section 6.11 Restructuring Expenses

In accordance with the Restructuring and Support Agreement, all reasonable and documented fees and expenses, incurred through and including the Effective Date, of the Initial Supporting First Lien Noteholders, the Initial Supporting Unsecured Noteholders, and the First Lien Notes Indenture Trustee, including all reasonable documented fees and expenses incurred by the legal and financial advisors of such parties, shall be paid in cash. Without limiting the foregoing, for the avoidance of doubt, the legal and financial advisors to be paid pursuant to this Section 6.11 include (a) Akin Gump Strauss Hauer & Feld LLP, (b) Fraser Milner Casgrain LLP, (c) Morris, Nichols, Arsht & Tunnell LLP, (d) Moelis & Co., (e) Kelley Drye & Warren LLP, (f) Chaitons LLP, (g) Goodmans LLP, (h) Kramer Levin Naftalis & Frankel LLP, (i) Houlihan Lokey, and (j) one local counsel in any single jurisdiction for each of (i) the Initial Supporting Unsecured Noteholders and (ii) the First Lien Notes Indenture Trustee.

ARTICLE 7
EFFECT OF THE PLAN

Section 7.1 Binding Effect of the Plan

The Plan (including, without limitation, the releases and injunctions contained herein), upon being sanctioned and approved by the Court pursuant to the Sanction Order and the Sanction Order being recognized by the U.S. Court, shall be binding as of the Effective Date on all Persons irrespective of the jurisdiction in which the Persons reside or in which the Claims arose and shall constitute:

a. a full, final and absolute settlement of all rights of the Affected Creditors and Existing Shareholders;

b. cancellation of the Equity Interests; and

c. an absolute release, satisfaction and discharge of all indebtedness, liabilities and obligations of the Debtors of or in respect of the Affected Claims and Equity Interests.

Section 7.2 Consents, Waivers and Agreements

From and after the Effective Date, each Affected Creditor and other Persons shall be deemed to have consented and to have agreed to all of the provisions of the Plan in its entirety. In particular, each Affected Creditor and other Persons shall be deemed:

a. to have executed and delivered to the Monitor and the Debtors all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out the Plan in its entirety; and

b. to have waived any and all defaults then existing or previously committed by the Debtors in any covenant, warranty, representation, term, provision, condition or obligations, expressed or implied, in any contract, agreement, mortgage, security agreement, indenture, trust indenture, loan agreement, commitment letter, agreement for sale, lease or other agreement, written or oral and any and all amendments or supplements thereto, existing between any such Affected Creditor or other Person and the Debtors and any and all notices of default and demands for payment under any instrument, including without limitation any guaranty, shall be deemed to have been rescinded.

Section 7.3 Release of Released Parties

As of the Effective Date, to the extent permitted by law, each of the Released Parties shall be released and discharged from any and all demands, claims, liabilities, obligations, causes of action, damages, executions or other recoveries, known or unknown, based in whole or in part on any act or omission, transaction, dealing or other occurrence existing or taking place on or prior to the Effective Date relating to, arising out of, or in connection with the Securities, the First Lien Notes Indentures, the Unsecured Notes Indenture, the Restructuring and Support Agreement, the Plan, the Prior CBCA Proceedings, the CCAA Proceedings, the Chapter 15 Proceedings, and any proceedings commenced with respect to or in connection with the Plan; *provided, however*, that nothing in this paragraph shall release or discharge any of the Released Parties from or in respect of its obligations under the Plan or the Restructuring and Support Agreement and to comply with and to make the distributions set out therein; *provided, further, however*, that such release and discharge shall not include any Unaffected Claims against the Debtors; *provided, further, however*, that nothing herein will release or discharge a Released Party if the Released Party is determined by a Final Order of a court of competent jurisdiction to have committed wilful misconduct or fraud.

Section 7.4 Exculpation

To the extent permitted under applicable law, the Released Parties shall not have or incur any liability for any act or omission in connection with, related to, or arising out of the Prior CBCA Proceedings, the CCAA Proceedings or the Chapter 15 Proceedings, the formulation, preparation, dissemination, negotiation or filing of the Plan and related information circular or

any contract, instrument, release or other agreement or document created or entered into in connection with the Plan or related information circular, the pursuit of sanctioning the Plan, the consummation, administration or implementation of the Plan, or the property to be distributed under the Plan, including the issuance of the securities thereunder or under any related agreement; *provided, however*, that this Section 7.4 shall not include any act or omission that is determined by Final Order of a court of competent jurisdiction to have constituted gross negligence, wilful misconduct or fraud.

Section 7.5 Injunction

All Persons, along with their respective affiliates, present and former officers, directors, employees, associated individuals, auditors, financial advisors, legal counsel, other professionals, sureties, insurers, indemnities, agents, dependents, heirs, representatives and assigns, as applicable, are permanently and forever barred, estopped, stayed and enjoined, on and after the Effective Date, with respect to claims against the Released Parties, from:

a. commencing, conducting or continuing in any manner, directly or indirectly, any action, suits, demands or other proceedings of any nature or kind whatsoever (including, without limitation, any proceeding in a judicial, arbitral, administrative or other forum) against the Released Parties;

b. enforcing, levying, attaching, collecting or otherwise recovering or enforcing by any manner or means, directly or indirectly, any judgment, award, decree or order against the Released Parties or their property;

c. commencing, conducting or continuing in any manner, directly or indirectly, any action, suits or demands, including without limitation by way of contribution or indemnity or other relief, in common law, or in equity, breach of trust or breach of fiduciary duty or under the provisions of any statute or regulation, or other proceedings of any nature or kind whatsoever (including, without limitation, any proceeding in a judicial, arbitral, administrative or other forum) against any Person who makes such a claim or might reasonably be expected to make such a claim in any manner or forum, against one or more of the Released Parties;

d. creating, perfecting, asserting or otherwise enforcing, directly or indirectly, any lien or encumbrance of any kind; or

e. taking any actions to interfere with the implementation or consummation of the Plan or the transactions contemplated therein.

This Section 7.5 does not apply to any Unaffected Claims or to the enforcement of any obligations under the Plan.

Section 7.6 Responsibilities of the Monitor

The Monitor is acting in its capacity as Monitor in the CCAA Proceedings and the Monitor will not be responsible or liable for any obligations of the Debtors hereunder. The

Monitor will have only those powers granted to it by this Plan, by the CCAA and by any Order of the Court in the CCAA Proceedings, including the Amended and Restated Initial Order.

ARTICLE 8
GENERAL

Section 8.1 Amendment

The Debtors shall be entitled, upon prior consultation with the Monitor, at any time and from time to time, to amend, restate, modify or supplement the Plan, provided that:

a. if made prior to the Meetings, the Debtors (i) obtain the prior consent of the Monitor, (ii) file the amended Plan with the Court, (iii) serve the amended Plan on the parties listed on the service list to these CCAA Proceedings, (iv) provide reasonable notice of the amended Plan to Creditors that have filed proxies with the Monitor to the extent that such Creditors are not on the service list, and (v) request the Monitor to post the amended Plan on the Monitor's website at www.pwc.com/car-catalystpaper;

b. if made during a Meeting, (i) the prior consent of the Monitor is obtained, (ii) the amendment would not be materially prejudicial to the interests of any of the Creditors under the Plan, and (iii) notice of the amendment is given to all Creditors eligible to vote and present at the Meetings prior to the vote being taken; in which case the amended Plan shall be promptly posted on the Monitor's website at www.pwc.com/car-catalystpaper and filed with the Court; and

c. if made after the Meetings and, without further order of the Court or notice to any Creditor, the Debtors and the Monitor, acting reasonably and in good faith, determine the variation, amendment, modification or supplement in the amended Plan to be (i) of a technical or administrative nature that would not prejudice the interests of any of the Creditors under the Plan and (ii) necessary in order to give effect to the substance of the Plan or the Sanction Order;

provided, however, that the Plan may not be modified, amended or supplemented in any manner without the express written consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, and, solely to the extent of any modification, amendment or supplement materially inconsistent with the Restructuring and Support Agreement, without the express written consent of the Initial Supporting Unsecured Noteholders.

Section 8.2 Paramountcy

From and after the Effective Date, if there is any conflict between any provision(s) of the Plan or Sanction Order and any provision of any other contract, document, agreement or arrangement, written or oral, between any Creditor and any Debtor in existence on the Effective Date, the provision(s) of the Plan and Sanction Order shall govern.

Section 8.3 Termination

At any time prior to the Effective Date, the Debtors, with the consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, may determine not to proceed with this Plan notwithstanding the obtaining of the Sanction Order. If the Conditions Precedent are not satisfied or waived as provided for in this Plan, if the Debtors determine not to proceed with this Plan, with the consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, or if the Sanction Order is not issued by the Court: (a) this Plan shall be null and void in all respects, (b) any settlement or compromise embodied in this Plan, and any document or agreement executed pursuant to this Plan shall be deemed null and void, and (c) nothing contained in this Plan, and no act taken in preparation of the consummation of this Plan, shall (i) constitute or be deemed to constitute a waiver or release of any Claims or any defences thereto by or against any of the Affected Creditors or any other Person, (ii) prejudice in any manner the rights of any of the Affected Creditors or any other Person in any further proceedings involving the Debtor, or (iii) constitute an admission of any sort by the Applicants, the Affected Creditors or any other Person.

Section 8.4 Severability

If, prior to the Effective Date, any term or provision of the Plan is held by the Court to be invalid, void, or unenforceable, the Court, at the request of the Debtors and with the consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such term or provision shall then be applicable as altered or interpreted.

Notwithstanding any such holding, alteration, or interpretation, the remainder of the terms and provisions of the Plan shall remain in full force and effect and shall in no way be affected, impaired, or invalidated by such holding, alteration, or interpretation. The Sanction Order shall constitute a judicial determination and shall provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable

Section 8.5 Successors and Assigns

The rights, benefits and obligations of any Person named or referred to in the Plan shall be binding on, and shall inure to the benefit of, any heir, executor, trustee, administrator, or successor or assign of such Person.

Section 8.6 Further Assurances

Notwithstanding that the transactions and events set out in the Plan shall occur and be deemed to occur in the order set out herein without any other additional act or formality, each of the Persons affected hereby shall make, do and execute, or cause to be made, done and executed all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by Catalyst in order to better implement the Plan.

Section 8.7 Entire Agreement

Except as otherwise indicated, upon the Effective Date, the Plan supersedes all previous and contemporaneous negotiations, promises, covenants, agreements, understandings, and representations on such subjects, all of which have become merged and integrated into the Plan.

Section 8.8 Exhibits and Related Documents

All schedules, exhibits and documents filed in relation to the Plan are incorporated into and are a part of the Plan as if set forth in full in the Plan.

Section 8.9 Notices

Any notices or communication to be made or given hereunder shall be in writing and shall reflect this Plan and may, subject as hereinafter provided, be made or given by the Person making or giving it or by any agent of such Person authorized for that purpose by personal delivery, by prepaid mail or by e-mail addressed to the respective parties as follows:

(i) if to the Debtors:

Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, BC V7B IC3
Attention: David Adderley, General Counsel
E-mail address: david.adderley@catalystpaper.com

and

Blake, Cassels & Graydon LLP
595 Burrard Street
P.O. Box 49314
Suite 2600, Three Bentall Centre
Vancouver BC V7X 1L3
Attention: William C. Kaplan Q.C. and Peter Rubin, Esq.
E-mail addresses: bill.kaplan@blakes.com and peter.rubin@blakes.com

with copies (which shall not constitute notice) to:

Skadden, Arps, Slate, Meagher & Flom LLP
222 Bay Street, Suite 1750
P.O. Box 258
Toronto, Ontario M5K IJ5
Attention: Christopher W. Morgan, Esq.
E-mail address: Christopher.morgan@skadden.com

and

Skadden, Arps, Slate, Meagher & Flom LLP
300 South Grand Avenue
Suite 3400
Los Angeles, CA 90071
Attention: Van C. Durrer II, Esq.
E-mail address: van.durrer@skadden.com

(ii) if to an Initial Supporting Noteholder or a transferee thereof, to the addresses set forth below such Noteholder's signature on the Restructuring and Support Agreement (or as directed by any transferee thereof), as the case may be:

with copies (which shall not constitute notice) to:

Fraser Milner Casgrain LLP
Royal Trust Tower
77 King Street West
Toronto, ON M5K 0A1
Attention: Ryan C. Jacobs, Esq., R. Shayne Kukulowicz, Esq., and John R. Sandrelli, Esq.
E-mail address: ryan.jacobs@fmc-law.com, shayne.kukulowicz@fmc-law.com, john.sandrelli@fmc-law.com

and

Akin Gump Strauss Hauer & Feld LLP
One Bryant Park
New York, NY 10036
Attention: Michael S. Stamer, Esq., Stephen B. Kuhn, Esq., and Meredith A. Lahaie, Esq.
E-mail addresses: mstamer@akingump.com, skuhn@akingump.com, mlahaie@akingump.com

and

Goodmans LLP
Bay Adelaide Centre
333 Bay Street, Suite 3400
Toronto, ON M5H 2S7
Attention: Robert Chadwick, Esq., and Melaney Wagner, Esq.
E-mail address: rchadwick@goodmans.ca, mwagner@goodmans.ca

(iii) if to the Monitor:

PricewaterhouseCoopers Inc.
250 Howe Street, Suite 700
Vancouver, BC V6C 3S7

Attention: Michael J. Vermette, Neil Bunker
E-mail address: michael.j.vermette@ca.pwc.com, neil.p.bunker@ca.pwc.com

with copies (which shall not constitute notice) to:

Fasken Martineau L.P.
2900-550 Burrard Street
Vancouver, BC V6C 0A3
Attention: John Grieve, Esq., and Kibben Jackson, Esq.
E-mail address: jgrieve@fasken.com; kjackson@fasken.com

Any notice given by delivery, mail, e-mail, or courier shall be effective when received.

DATED at Vancouver, British Columbia, as of the 15th day of March, 2012.

TAB 8

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

ORDER MADE AFTER APPLICATION

~~MEETINGS ORDER~~

BEFORE THE HONOURABLE MR. JUSTICE SEWELL) March 22, 2012

ON THE APPLICATION of the Petitioner Parties coming on for hearing at Vancouver, British Columbia, on the 21st day of March, 2012; AND ON HEARING, Bill Kaplan, Q.C., Peter Rubin and Andrew Crabtree, counsel for the Petitioner Parties, John Grieve and Kibben Jackson, counsel for the Monitor, PricewaterhouseCoopers Inc. (the "**Monitor**"), and those other counsel listed in **Schedule "B"** hereto; AND UPON READING the material filed;

THIS COURT ORDERS AND DECLARES THAT:

SERVICE

1. The time for service of the Notice of Application herein be and is hereby abridged and that the Notice of Application is properly returnable today and service thereof upon any person other than those on the Service List be and is hereby dispensed with.

DEFINITIONS

2. Any capitalized terms not otherwise defined in this Order shall have the meanings ascribed to them in the Plan of Compromise and Arrangement of the Petitioner Parties dated as of March 15, 2012, attached as **Schedule "C"** to this Order (as it may be amended, restated or supplemented from time to time in accordance with its terms, the "**Plan**"). "**Petitioners**" means, collectively, Catalyst and the other entities listed in **Schedule "A"** to this Order. "**Petitioner Parties**" means, collectively, the Petitioners and Catalyst Paper General Partnership.

PLAN OF COMPROMISE AND ARRANGEMENT

3. The Plan is hereby accepted for filing and the Petitioner Parties are hereby authorized to present the Plan to the Creditors for their consideration in accordance with the terms of this Order and to seek approval of the Plan by the Creditors holding an Allowed Claim or a Disputed Claim (each an "**Eligible Voting Creditor**") at the Meetings in the manner set forth herein.

4. With the consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, and, to the extent that any variation, amendment, modification or supplement to the Plan deals with the ABL Facility or the DIP Credit Agreement, the consent of JPMorgan Chase Bank, N.A. or the DIP Lenders, as applicable, and, to the extent that any variation, amendment, modification or supplement to the Plan is materially inconsistent with the Restructuring and Support Agreement, the consent of the Initial Supporting Unsecured Noteholders, the Petitioner Parties are hereby authorized to vary, amend, modify or supplement the Plan, in accordance with its terms by way of a supplementary or amended and restated plan or plans of compromise and arrangement (an "**Amended Plan**") at any time and from time to time:

(a) prior to the Meetings, provided that the Petitioner Parties or the Monitor, as applicable, (i) obtain the prior consent of the Monitor, (ii) file the Amended Plan with the Court, (iii) serve the Amended Plan on the Service List, (iv) provide reasonable notice of the Amended Plan to Convenience Share Election Creditors and Cash Election Creditors, (v) provide reasonable notice of the Amended Plan to Eligible Voting Creditors that have filed proxies with the Monitor, to the extent that such Eligible Voting Creditors are not on the Service List, and (vi) post the Amended Plan on the Monitor's website at www.pwc.com/car-catalystpaper (the "**Monitor's Website**");

(b) during a Meeting, provided that (i) the prior consent of the Monitor is obtained, (ii) such amendment would not be materially prejudicial to the interests of any of the Creditors under the Plan, and (iii) notice of any such variation, amendment, modification or supplement is given to all Eligible Voting Creditors present in person or by proxy (and in such case, notice given to the Eligible Voting Creditor's proxy holder shall be sufficient) at each Meeting prior to the vote being taken at such Meeting; in which case any such variation, amendment, modification or supplement shall be deemed to be part of and incorporated into the Plan, and such Amended Plan shall be promptly posted on the Monitor's Website and filed with the Court as soon as practicable following the Meetings; and

(c) after the Meetings (both prior to and subsequent to the date of the Sanction Order, if granted) without obtaining a further Order of this Court and without notice to any Creditors, if the Petitioner Parties and the Monitor, acting reasonably and in good faith, determine that such variation, amendment, modification or supplement is of a technical or administrative nature that would not be prejudicial to the interests of any of the Creditors under the Plan and is necessary in order to give effect to the substance of the Plan or the Sanction Order (if granted).

CLASSIFICATION OF CREDITORS

5. For the purposes of considering and voting on the Plan, there shall be two (2) Classes of Creditors as established in the Plan, being the Unsecured Claims Class and the First Lien Notes Claims Class.

NOTICE OF MEETINGS AND INFORMATION PACKAGE

6. The Company's management proxy circular (the "**Information Circular**"), the form of notice of the Meetings (the "**Notice of Meetings**"), the forms of proxy for General Unsecured Creditors and the voting forms for Unsecured Noteholders and for First Lien Noteholders, the Cash Election Form, the Convenience Share Election Form (collectively, the "**Information Package**") and the Newspaper Notice (the "**Newspaper Notice**") in substantially the forms attached to this Order as **Schedules "D", "E", "F", "G", "H", "I", "J", "K", "L"** and **"M"** respectively, are hereby approved.

7. Notwithstanding paragraph 6 above, but subject to paragraph 4, the Petitioner Parties may from time to time make such minor changes to the documents in the Information Package as the Petitioner Parties and the Monitor consider necessary or desirable to conform the content thereof to the terms of the Plan or this Order or to describe the Plan.

8. As soon as practicable after the granting of this Order and in any event within two (2) Business Days following the date of this Order, the Monitor shall cause a copy of the Information Package (and any amendments made thereto in accordance with paragraph 7 hereof), this Order (including all schedules that are not included in the Information Package), and the Monitor's Fifth Report dated March [•], 2012 to be posted on the Monitor's Website. The Monitor shall ensure that the Information Package remains posted on the Monitor's Website until at least one (1) Business Day after the Effective Date.

9. Forthwith after the granting of this Order, the Monitor shall deliver a copy of the Information Package (without the Cash Election Form, the Convenience Share Election Form and the General Unsecured Creditors Proxy) to Globic Advisors (the "**Solicitation Agent**"). As soon as practicable after the granting of this Order and in any event within four (4) Business Days following the date of this Order, the Monitor shall send the Information Package (without

the voting instruction forms and master proxies for and in respect of the Noteholders) to all Creditors (other than Noteholders) known to the Monitor and the Petitioner Parties as of the date of this Order by regular mail, facsimile, courier or e-mail at the last known address (including fax number or email address) for such Creditors set out in the books and records of the Petitioner Parties.

10. As soon as practicable following the receipt of a request therefor, the Monitor shall send a copy of the Information Package by registered mail, facsimile, courier or e-mail, to each Creditor who, no later than three (3) Business Days prior to the applicable Meeting (or any adjournment thereof), makes a written request for it.

PUBLICATION OF NEWSPAPER NOTICE

11. As soon as practicable after the granting of this Order and in any event within four (4) Business Days following the date of this Order, the Monitor shall use reasonable efforts to cause the Newspaper Notice (substantially in the form attached hereto as **Schedule "M")** to be published for a period of one (1) Business Day in *The National Post*, the *Victoria Times Colonist*, the *Vancouver Sun* and *The Wall Street Journal.*

UNSECURED NOTEHOLDERS SOLICITATION PROCESS

12. The record date for the purposes of determining which Unsecured Noteholders are entitled to receive notice of the Unsecured Creditors Meeting and vote at the Unsecured Creditors Meeting shall be 5:00 p.m. on March 16, 2012 at the prevailing Pacific time (the "**Unsecured Noteholder Record Date**").

13. As soon as practicable after the granting of this Order, and in any event within four (4) Business Days following the date of this Order, the Solicitation Agent shall cause a copy of the Information Package (but not including the General Unsecured Creditor Proxy, the Cash Election Form and the Convenience Share Election Form) to be sent to:

(a) each of the registered Unsecured Noteholders that appear on the applicable securities register of Catalyst as at the Unsecured Noteholder Record Date, by one or more of the following methods:

(i) by email or by prepaid ordinary or first class mail addressed to the Unsecured Noteholder at his, her or its address as it appears on the applicable securities register of Catalyst as at the Unsecured Noteholder Record Date;

(ii) by delivery in person, or by delivery to the address specified in subparagraph (i) above; or

(iii) by email or facsimile transmission to any Unsecured Noteholder who identifies himself, herself or itself to the satisfaction of the Solicitation Agent, acting through its representatives, and who requests such email or facsimile transmission; and

(b) each of the non-registered Unsecured Noteholders, by sending copies of the Information Package to intermediaries and registered nominees for forwarding on to both non-objecting beneficial owners and objecting beneficial owners, in accordance with National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer* of the Canadian Securities Administrators.

14. Notwithstanding paragraph 6 of this Order, and paragraph 4 of this Order, in the event that any amendments or supplements are made to the Information Package (the "**Additional Information**") after the Information Package has been sent to the Unsecured Noteholders pursuant to paragraph 13 of this Order, the Petitioner Parties shall only be required to distribute such Additional Information to the Unsecured Noteholders by way of press release.

15. Accidental failure of or accidental omission by the Solicitation Agent to provide a copy of the Information Package to any one or more of the Unsecured Noteholders, the non-receipt of a copy of the Information Package beyond the reasonable control of the Solicitation Agent, or any failure or omission to provide a copy of the Information Package as a result of events beyond the reasonable control of the Solicitation Agent (including, without limitation, any inability to use postal services) shall not constitute a breach of this Order, and shall not invalidate any resolution passed or proceedings taken at the Unsecured Creditors Meeting, but if any such

failure or omission is brought to the attention of the Solicitation Agent, then the Solicitation Agent shall use reasonable efforts to rectify the failure or omission by the method and in the time most reasonably practicable in the circumstances.

FIRST LIEN NOTEHOLDERS SOLICITATION PROCESS

16. The record date for the purposes of determining which First Lien Noteholders are entitled to receive notice of the First Lien Noteholders Meeting and vote at the First Lien Noteholders Meeting shall be 5:00 p.m. on March 16, 2012 at the prevailing Pacific time (the "**First Lien Noteholder Record Date**").

17. As soon as practicable after the granting of this Order, and in any event within four (4) Business Days following the date of this Order, the Solicitation Agent shall cause a copy of the Information Package (but not including the General Unsecured Creditor Proxy, the Cash Election Form and the Convenience Share Election Form) to be sent to:

(a) each of the registered First Lien Noteholders that appear on the applicable securities register of Catalyst as at the First Lien Noteholder Record Date, by one or more of the following methods:

(i) by email or prepaid ordinary or first class mail addressed to the First Lien Noteholder at his, her or its address as it appears on the applicable securities register of Catalyst as at the First Lien Noteholder Record Date;

(ii) by delivery in person, or by delivery to the address specified in subparagraph (i) above; or

(iii) by email or facsimile transmission to any First Lien Noteholder who identifies himself, herself or itself to the satisfaction of the Solicitation Agent, acting through its representatives, and who requests such email or facsimile transmission; and

(b) each of the non-registered First Lien Noteholders, by sending copies of the Information Package to intermediaries and registered nominees for forwarding on

to both non-objecting beneficial owners and objecting beneficial owners, in accordance with National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer* of the Canadian Securities Administrators.

18. Notwithstanding paragraph 6 of this Order, and paragraph 4 of this Order, in the event that there is any Additional Information after the Information Package has been sent to the First Lien Noteholders pursuant to paragraph 17 of this Order, the Petitioner Parties shall only be required to distribute such Additional Information to the First Lien Noteholders by way of press release.

19. Accidental failure of or accidental omission by the Solicitation Agent to provide a copy of the Information Package to any one or more of the First Lien Noteholders, the non-receipt of a copy of the Information Package beyond the reasonable control of the Solicitation Agent, or any failure or omission to provide a copy of the Information Package as a result of events beyond the reasonable control of the Solicitation Agent (including, without limitation, any inability to use postal services) shall not constitute a breach of this Order, and shall not invalidate any resolution passed or proceedings taken at the First Lien Noteholders Meeting, but if any such failure or omission is brought to the attention of the Solicitation Agent, then the Solicitation Agent shall use reasonable efforts to rectify the failure or omission by the method and in the time most reasonably practicable in the circumstances.

NOTICE SUFFICIENT

20. The publication of the Newspaper Notice, the sending of a copy of the Information Package to Creditors in accordance with paragraph 9 above, the posting of the Information Package on the Monitor's Website, and the provision of notice to the Unsecured Noteholders and First Lien Noteholders in the manner set out in paragraphs 8, 9, 11, 13 and 17 above, shall constitute good and sufficient service of this Order, the Plan and the Notice of Meetings on all Persons who may be entitled to receive notice thereof in these proceedings, or who may wish to be present in person or by proxy at the Meetings or in these proceedings, and no other form of notice or service need be made on such Persons and no other document or material need be served on such Persons in respect of these proceedings. Service shall be effective, in the case of

mailing, three (3) Business Days after the date of mailing, in the case of service by courier, on the day after the courier was sent, in the case of any means of transmitted, recorded or electronic communication, when dispatched or delivered for dispatch and in the case of service by fax or e-mail, on the day the fax or e-mail was transmitted, unless (i) such day is not a Business Day, or the fax or e-mail transmission was made after 5:00 p.m., in which case, on the next Business Day, or (ii) a return failure-to-deliver message is received by sender.

THE MEETINGS

21. The Petitioner Parties are hereby authorized and directed to call, hold and conduct a separate meeting for each Class of Creditors on April 23, 2012, at the Delta Vancouver Airport Hotel, 3500 Cessna Drive, Vancouver, British Columbia, V7B 1C7 at 10:00 a.m. for the Unsecured Claims Class (the "**Unsecured Creditors Meeting**") and at 11:00 a.m. for the First Lien Notes Claims Class (the "**First Lien Noteholders Meeting**"), or as adjourned to such places and times as the Chair or Monitor may determine in accordance with paragraph 46 hereof, for the purposes of considering and voting on the resolution to approve the Plan and transacting such other business as may be properly brought before the applicable Meeting.

ATTENDANCE AT THE MEETINGS

22. The only Persons entitled to notice of, attend or speak at a Meeting are the Eligible Voting Creditors (which, for greater certainty, shall include the Unsecured Noteholders as at the Unsecured Noteholder Record Date at the Unsecured Creditors Meeting and the First Lien Noteholders as at the First Lien Noteholder Record Date at the First Lien Noteholders Meeting) of the applicable Class of Creditors and their respective proxy holders, representatives of the Petitioner Parties, the Monitor, the Steering Group, the Initial Supporting Noteholders and the legal counsel and financial advisors of any of the foregoing, the Chair, Scrutineers and the Secretary. Any other Person may be admitted to a Meeting only by invitation of the Petitioner Parties or the Monitor.

23. An Eligible Voting Creditor that is not an individual may only attend and vote at a Meeting if it has appointed a proxy holder to attend and act on its behalf at such Meeting.

DISPUTED CLAIMS

24. If the amount of a Disputed Claim has not been finally determined or resolved at least one (1) Business Day prior to the date of the applicable Meeting or any adjournment thereof, the holder thereof shall be entitled to vote the aggregate amount of the Disputed Claim(s) of the holder in accordance with the provisions of this Order, without prejudice to the rights of the Petitioner Parties, the Monitor or the holder of the Disputed Claim(s) with respect to the final determination of the Disputed Claim(s) for distribution purposes and such vote shall be separately tabulated by the Monitor in accordance with paragraphs 49 and 50 of this Order. Votes cast in respect of any Disputed Claim shall not be counted toward the Required Majorities.

ENTITLEMENT TO VOTE AT THE MEETINGS

25. Any Person having an Unaffected Claim shall not be entitled to vote on the Plan at a Meeting in respect of such Unaffected Claim and, except as otherwise permitted herein, shall not be entitled to attend a Meeting.

26. Any Creditor holding a Claim (other than an Allowed Claim) that has not submitted a Proof of Claim in respect of its Claim in accordance with the procedure set out in the Claims Procedure Order prior to the Claims Bar Date or the Restructuring Claims Bar Date set out therein, as applicable, shall not be entitled to vote on the Plan at the applicable Meeting in respect of its Claim.

27. Subject to paragraphs 43 and 44 hereof, or as otherwise may be determined in connection with this Order, the only Persons entitled to vote at a Meeting in person or by proxy are Eligible Voting Creditors.

VOTING AT THE MEETINGS

28. The quorum required at each Meeting shall be one (1) Eligible Voting Creditor present in person or by proxy at such Meeting.

29. Subject to paragraphs 24, 44 and 50 hereof, each Eligible Voting Creditor shall have one (1) vote, which vote shall have the value of such Eligible Voting Creditor's Allowed Claim(s) as

determined in accordance with the Claims Procedure Order, any other order of the Court and/or the Plan.

30. The Chair be and is hereby authorized to accept and rely upon proxies that are substantially in the form attached to this Order as **Schedules "F", "G", "H", "I"** and **"J"** and as permitted by paragraphs 39, 40 and 41 hereof.

31. An Eligible Voting Creditors' Claim shall not include fractional numbers and for voting purposes, shall be rounded down to the nearest whole U.S. Dollar amount.

UNSECURED CLASS

A) Convenience Share Election Creditors

32. Any Convenience Creditor may make a Convenience Share Election by sending a Convenience Share Election Form (in the form attached hereto as **Schedule "L"**) to the Monitor such that it is received by the Monitor at least one (1) Business day prior to the Unsecured Creditors Meeting. For purposes of determining the Required Majorities, any Convenience Creditor who makes a Convenience Share Election in accordance with this Order and the Plan (a "**Convenience Share Election Creditor**") shall be deemed to vote in favour of the resolution to approve the Plan to the extent of his, her or its Allowed Claim and shall not be entitled to attend or vote at the Unsecured Creditors Meeting, whether in person or by proxy.

B) Cash Election Creditors

33. Any General Unsecured Creditor that is not a Convenience Creditor may make a Cash Election by sending a Cash Election Form (in the form attached hereto as **Schedule "K"**) to the Monitor such that it is received by the Monitor at least one (1) Business Day prior to the Unsecured Creditors Meeting. The Allowed Claim of any General Unsecured Creditor who makes a Cash Election in accordance with this Order and the Plan (a "**Cash Election Creditor**") shall be deemed to be equal to CAD $10,000 for distribution purposes only. For purposes of determining the Required Majorities, any such Cash Election Creditor shall be deemed to vote in favour of the resolution to approve the Plan to the full extent of his, her or its Allowed Claim and shall not be entitled to attend or vote at the Unsecured Creditors Meeting, whether in person or by proxy.

C) General Unsecured Creditors (not including Convenience Share Election Creditors or Cash Election Creditors)

34. For the purposes of voting at the Unsecured Creditors Meeting, the Allowed Claim of any General Unsecured Creditors (not including Convenience Share Election Creditors or Cash Election Creditors) shall be deemed to be equal to the extent of his, her or its Allowed Claim.

D) Unsecured Noteholders

35. For the purposes of voting at the Unsecured Creditors Meeting, the Allowed Claim of any Unsecured Noteholder shall be deemed to be equal to its pro rata share of the Unsecured Notes Claims Voting Amount (as defined and determined in accordance with paragraph 11 of the Claims Procedure Order).

36. Non-registered Unsecured Noteholders will be required to submit their vote via their respective intermediary and nominee in order to verify their allowed claim as of the record date.

FIRST LIEN NOTES CLASS

37. For the purposes of voting at the First Lien Noteholders Meeting, the Allowed Claim of any First Lien Noteholder shall be deemed to be equal to its pro rata share of the First Lien Notes Claims Voting Amount (as defined in and determined in accordance with paragraph 12 of the Claims Procedure Order).

38. Non-registered First Lien Noteholders will be required to submit their vote via their respective intermediary and nominee in order to verify their Allowed Claim as of the record date.

VOTING BY PROXIES

39. All proxies submitted, other than proxies submitted by First Lien Noteholders or Unsecured Noteholders, in respect of the Unsecured Creditors Meeting (or any adjournment thereof) must be (a) submitted prior to the Unsecured Creditors Meeting; and (b) in substantially the form attached to this Order as **Schedule "F"**, as applicable, or in such other form acceptable to the Monitor or the Chair. The Monitor is hereby authorized to use reasonable discretion as to the adequacy of compliance with respect to the manner in which any proxy is completed and

executed, and may waive strict compliance with the requirements in connection with the deadlines imposed in connection therewith.

40. Each of the non-registered Unsecured Noteholders, who hold their claims through intermediaries or nominees, shall execute a Beneficial Noteholder Voting Instruction Form, attached as **Schedule "G"**, and return the Beneficial Noteholder Voting Instruction Form to their respective intermediary or nominee. The intermediaries or nominees, holding the Unsecured Notes for the benefit of the underlying Noteholders, will verify the Noteholder's record date claim, and include that claim on that intermediary's and nominee's Master Proxy, attached as **Schedule "H"** for delivery to the Solicitation Agent as set out in **Schedule "H"** no later than 1:00 p.m. (prevailing Pacific time) on April 20, 2012. The Solicitation Agent shall, as soon as reasonably practicable after receipt of any Beneficial Noteholder Voting Instruction Forms and Master Proxies, deliver the relevant information to the Monitor. By no later than 5:00 p.m. (prevailing Pacific time) on April 20, 2012, the Solicitation Agent shall deliver to the Monitor a summary of all information received by the Solicitation Agent along with copies of all Beneficial Noteholder Voting Instruction Forms and Master Proxies received by the Solicitation Agent.

41. Each of the non-registered First Lien Noteholders, who hold their claims through intermediaries or nominees, shall execute a Beneficial Noteholder Voting Instruction Form, attached as **Schedule "I"**, and return the Beneficial Noteholder Voting Instruction Form to their respective intermediary or nominee. The intermediaries or nominees, holding the First Lien Notes for the benefit of the underlying Noteholders, will verify the Noteholder's record date claim, and include that claim on that intermediary's and nominee's Master Proxy, attached as **Schedule "J"** for delivery to the Solicitation Agent as set out in **Schedule "J"** no later than 1:00 p.m. (prevailing Pacific time) on April 20, 2012. The Solicitation Agent shall, as soon as reasonably practicable after receipt of any Beneficial Noteholder Voting Instruction Forms and Master Proxies, deliver the relevant information to the Monitor. By no later than 5:00 p.m. (prevailing Pacific time) on April 20, 2012, the Solicitation Agent shall deliver to the Monitor a summary of all information received by the Solicitation Agent along with copies of all Beneficial Noteholder Voting Instruction Forms and Master Proxies received by the Solicitation Agent.

42. Paragraphs 39, 40 and 41 hereof, the Instruction for Completion of Proxy and the Instructions for Completion of Voting Instruction Form (which instructions are part of the documents attached hereto as **Schedules "F", "G", "H", "I"** and **"J"**) shall govern the submission of such documents and any deficiencies in respect of the form or substance of such documents filed with the Solicitation Agent.

TRANSFERS OR ASSIGNMENTS OF CLAIMS

43. Subject to paragraphs 32 and 33 above, if an Affected Creditor other than a Noteholder transfers or assigns an Affected Claim to another Person, such transferee or assignee shall not be entitled to attend and vote the transferred or assigned Affected Claim at the applicable Meeting unless (i) the assigned Affected Claim is an Allowed Claim or Disputed Claim, or a combination thereof, and (ii) notice of and proof of transfer or assignment has been delivered to the Monitor in accordance with paragraph 36 of the Claims Procedure Order no later than three (3) Business Days prior to the date of the applicable Meeting.

44. Subject to paragraphs 32 and 33 above, if an Affected Creditor other than a Noteholder transfers or assigns (i) the whole of its Affected Claim to more than one Person, or (ii) part of its Affected Claim to another Person or Persons, such transfers or assignments shall not create separate Affected Claims for voting purposes. Only the last Affected Creditor holding the whole of the Affected Claim may attend and vote the Affected Claim (including any transferred or assigned parts thereof) at the applicable Meeting (provided that such Affected Creditor is an Eligible Voting Creditor and only that portion of the Affected Claim that is an Allowed Claim or Disputed Claim shall be eligible to be voted), unless such Affected Creditor delivers notice in writing to the Monitor in accordance with paragraph 36 of the Claims Procedure Order no later than three (3) Business Days prior to the date of the applicable Meeting, directing that a specified transferee or assignee may vote the Affected Claim (including any transferred or assigned parts thereof) at the applicable Meeting if and to the extent such Affected Claim may otherwise be voted at such Meeting.

PROCEDURE AT THE MEETINGS

45. A representative of the Monitor shall preside as the chair of each of the Meetings (the "**Chair**") and shall decide all matters relating to the rules and procedures at, and the conduct of,

such Meeting in accordance with the terms of the Plan, this Order and further Order of this Court.

46. A Meeting shall be adjourned to such date, time and place as may be designated by the Chair or the Monitor, if:

(a) the requisite quorum is not present at such Meeting;

(b) such Meeting is postponed by a vote of the majority in value of the Claims of the Eligible Voting Creditors present in person or by proxy at such Meeting; or

(c) prior to or during the Meeting, the Chair or the Monitor, with the consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, otherwise decides to adjourn such Meeting.

The announcement of the adjournment by the Chair at such Meeting (if the adjournment is during a Meeting), the posting of notice of such adjournment on the Monitor's Website, written notice to the Service List and issuing a press release with respect to such adjournment shall constitute sufficient notice of the adjournment and neither the Petitioner Parties nor the Monitor shall have any obligation to give any other or further notice to any Person of the adjourned Meeting.

47. Every question submitted to a Meeting, except to approve the Plan resolution or an adjournment of such Meeting, shall be decided by a majority of votes given on a show of hands or by confidential written ballot, at the discretion of the Chair, by a majority in number of the Eligible Voting Creditors.

48. The Chair shall direct a vote by the Eligible Voting Creditors of each Class on the resolutions (substantially in the form attached to this Order as **Schedules "N"** and **"O"**) to approve the Plan (i) by way of written ballot, or (ii) if the Chair deems it appropriate, by a show of hands.

49. The Monitor may appoint scrutineers (the "**Scrutineers**") for the supervision and tabulation of the attendance at, quorum, and votes cast at each Meeting. A Person or Persons

designated by the Monitor shall act as secretary (the "**Secretary**") at each Meeting and shall tabulate all Allowed Claims (and, if applicable, Disputed Claims) voted at each such Meeting.

50. For voting purposes, the Monitor shall keep a separate record and tabulation of any votes (including deemed votes) cast in respect of Allowed Claims and Disputed Claims.

51. The result of any vote conducted at a Meeting of a Class of Creditors shall be binding upon all Creditors of that Class, whether or not any such Creditor was present or voted (or was deemed to have voted) at the Meeting, without prejudice to such Creditor's ability to oppose the Plan at the Sanction Hearing on a basis other than that the Required Majorities were obtained.

52. Following the vote by a Class of Creditors at a Meeting, the Monitor shall tally the votes cast and deemed to be cast in accordance with the terms of this Order and determine whether the Plan has been approved by the majorities of Eligible Voting Creditors of that Class required pursuant to section 6 of the CCAA (the "**Required Majorities**").

53. The Monitor shall file its report to this Court by no later than one (1) Business Day after the date of the Meetings detailing the votes cast or deemed to be cast in respect of Allowed Claims and Disputed Claims and the results of the votes cast, including, without limitation, whether:

(a) the Plan has been accepted by the Required Majorities of Creditors in each Class; and

(b) the votes cast or deemed to be cast by Eligible Voting Creditors with Disputed Claims, if any, would affect the result of the vote.

54. If the votes cast by the holders of Disputed Claims would affect whether the Plan has been approved by the Required Majorities of Creditors, the Monitor shall report this to the Court in accordance with paragraph 53 of this Order, in which case (i) the Petitioner Parties or the Monitor may request this Court to direct an expedited determination of any material Disputed Claims, as applicable, (ii) the Petitioner Parties, with the consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, may request this Court to defer the date of the hearing of the Sanction Hearing, (iii) the Petitioner

Parties, with the consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, may request this Court to defer or extend any other time periods in this Order or the Plan, and/or (iv) the Petitioner Parties or the Monitor may seek such further advice and direction as may be considered appropriate.

55. The Court directs the Monitor to compile lists of General Unsecured Creditors and Unsecured Noteholders entitled to vote at the meeting including separate lists of General Unsecured Creditors and Unsecured Noteholders who did not cast a vote at the meeting or file a proxy in respect thereto.

56. An electronic copy of the Monitor's Report regarding the Meetings and the Plan, including any amendments and variations thereto, shall be posted on the Monitor's Website prior to the Sanction Hearing.

HEARING FOR SANCTION OF THE PLAN

57. If the Plan is approved by the Required Majorities of Eligible Voting Creditors at each of the Meetings, or by subsequent Court Order, the Petitioner Parties shall seek Court approval of the Plan by bringing an application for approval of an Order sanctioning the Plan (the "**Sanction Order**"), which application shall be returnable before this Court at 9:45 a.m. on April 25, 2012, or, with the consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, as soon after that date as the matter can be heard (the "**Sanction Hearing**").

58. Service of the Information Package pursuant to paragraphs 8, 9, 13 and 17 hereof and the publication of the Newspaper Notice pursuant to paragraph 11 hereof shall constitute good and sufficient service of the notice of the Sanction Hearing on all Persons who may be entitled to receive notice of the Sanction Hearing, and no other form of notice or service need be made on such Persons, and no such other document or materials need be served on such Persons in respect of the Sanction Hearing unless they have filed and served an Application Response in accordance with paragraph 59 of this Order.

59. Any party who wishes to oppose the application for approval of the Sanction Order shall serve upon the lawyers for the Petitioner Parties, the Monitor, and upon all other parties on the

Service List, by not later than 12:00 p.m. on April 24, 2012: (a) an Application Response in the form prescribed by the British Columbia Supreme Court Civil Rules setting out the basis for such opposition; and (b) a copy of the materials to be used to oppose the application for approval of the Sanction Order setting out the basis for the opposition.

60. If the Sanction Hearing is adjourned in accordance with the terms hereof, only those Persons who are listed on the Service List (which shall include those Persons who have complied with paragraph 59 of this Order) shall be served with notice of the adjourned date.

GENERAL

61. The Petitioner Parties and the Monitor may, in their discretion, generally or in individual circumstances, but in accordance and compliance with the terms of this Order, waive in writing the time limits imposed on any Creditor under this Order if the Petitioner Parties and the Monitor deem it advisable to do so, without prejudice to the requirement that all other Creditors must comply with this Order.

62. If any deadline set out in this Order falls on a day other than a Business Day, the deadline shall be extended to the next Business Day.

63. All references herein as to time shall mean local time in Vancouver, British Columbia, Canada, and any reference to an event occurring on a Business Day shall mean prior to 5:00 p.m. prevailing Pacific time on such Business Day unless otherwise indicated herein.

64. Notwithstanding the terms of this Meeting Order, the Petitioner Parties and the Monitor may apply to this Court from time to time for directions from this Court with respect to this Meeting Order, including with respect to the Meetings and the schedules to this Meeting Order, or for such further Order or Orders as either of them may consider necessary or desirable to amend, supplement or replace this Meeting Order, including any schedule to this Meeting Order.

65. Subject to any further Order of this Court, in the event of any conflict, inconsistency, ambiguity or difference between the provisions of the Plan and this Order, the terms, conditions and provisions of the Plan shall govern and be paramount, and any such provision of this Order

shall be deemed to be amended to the extent necessary to eliminate any such conflict, inconsistency, ambiguity or difference.

EFFECT, RECOGNITION AND ASSISTANCE OF OTHER COURTS

66. **THIS COURT REQUESTS** the aid and recognition of other Canadian and foreign Courts, tribunal, regulatory or administrative bodies, including any Court or administrative tribunal of any Federal or State Court or administrative body in the United States of America, (including, without limitation, the United States Bankruptcy Court), to act in aid of and to be complementary to this Court in carrying out the terms of this Order where required. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to (i) make such orders and to provide such assistance to the Petitioner Parties and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, (ii) grant representative status to any of the Petitioner Parties, in any foreign proceeding, and (iii) assist the Petitioner Parties, the Monitor and the respective agents of each of the foregoing in carrying out the terms of this Order.

THE FOLLOWING PARTIES APPROVE THE FORM OF THIS ORDER AND CONSENT TO EACH OF THE ORDERS, IF ANY, THAT ARE INDICATED ABOVE AS BEING BY CONSENT:

Signature of
[ ] party [X] lawyer for the Petitioner Parties
Bill Kaplan, Q.C./Peter Rubin

CHECKED

BY THE COURT.

Registrar

SCHEDULE "A" TO MEETINGS ORDER

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

Schedule "B"

Counsel Name	Name of Party
Lance Williams	Powell River Energy Inc., Quadrant Investments Ltd. and TimberWest Forest Corp.
Peter Reardon	JPMorgan Chase Bank, N.A.
David Gruber Melaney Wagner Rob Chadwick	A Representative Group of 2014 Unsecured Noteholders and certain 2016 Noteholders
John Sandrelli Chris Ramsay	A Representative Group of 2016 Noteholders
William Skelly George Benchetrit (by telephone)	Wilmington Trust, National Association
Chris Simard	Ad Hoc Committee of 2014 Noteholders
Ari Kaplan	Catalyst Salaried Employees & Pensioner Committee
Dan Rogers	CEP Unions – Locals 1, 76 (Powell River), 592, 686 (Port Alberni), 1132 (Crofton), 630, 1123 (Campbell River)
Charles Gordon	PPWC Local 2
Sandra Wilkinson	Superintendent of Pensions
Heather Ferris Marc Wasserman	Board of Directors of Catalyst
Orestes Pasparakis (by telephone)	Wells Fargo Bank NA
Brent Johnston Andrea Glen	Catalyst TimberWest Retired Salaried Employees Association
Elizabeth Pillon (by telephone) Lisa Hiebert	Canexus Corp and Casco Inc.
Kendall Andersen	Tolko Industries Ltd. and BC Hydro
Tim Timberg	HMTQ in Right of Canada
David Hatter Elizabeth Rowbotham	HMTQ in Right of the Province of British Columbia
Sebastien Anderson	United Steelworkers International and USW Local 2688

TAB 9

Court of Appeal File No. CA39754

COURT OF APPEAL

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"

MEMORANDUM OF ARGUMENT OF THE RESPONDENTS CATALYST PAPER CORPORATION ET AL.

Catalyst Paper Corporation et al.

William C. Kaplan Q.C./Peter L. Rubin

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peter.rubin@blakes.com

PART I: FACTS

1. For the purposes of the Appellants' application for leave to appeal, the Respondent Catalyst Paper Corporation ("**Catalyst**") accepts the facts set out in paragraphs 1-4, 6 and 10 of the Appellants' Memorandum of Argument ("**Appellants' Memorandum**"). Catalyst adopts the defined terms employed in the Appellants' Memorandum.

2. On January 31, 2012, the CCAA Judge issued an Initial Order in these proceedings (the "**Initial Order**") providing for the Directors and Officers Charge. The Initial Order further provided, in paragraph 53, that the Directors and Officers Charge and certain other charges created by the Initial Order (defined as the "**Charges**") would:

> ...rank in priority to all other security interests, trusts, liens, mortgages, charges and encumbrances and claims of secured creditors, statutory or otherwise, whether existing as of the date herein or arising in the future, including any and all deemed trusts (provincial or otherwise), including under the PBSA, all claims in respect of breach of fiduciary duties and any future charges which may arise under Sections 81.3, 81.4, 81.5 and 81.6 of the BIA (collectively "Encumbrances") in favour of any Person.

(the "**Charge Priority Clause**").[1]

3. On February 3, 2012, the CCAA Judge issued an Amended and Restated Initial Order (the "**Restated Order**"). In the Restated Order, the proposed Critical Suppliers Charge (not yet granted) was defined as a "Charge". The Charge Priority Clause was renumbered as paragraph 55 of the Restated Order, but was otherwise unaltered. No Amended or Restated Order has been issued since February 3, 2012.[2]

4. On February 6, 2012, the CCAA Judge issued an Order granting the Critical Suppliers Charge (the "**Critical Suppliers Order**").[3]

5. On February 14, 2012, the CCAA Judge considered: (1) an extension of the stay of proceedings in the Initial Order, and (2) the final terms and priority of the DIP Lenders Charge. The CCAA Judge also heard and granted an application by the Appellants for leave to apply to represent the beneficiaries of the Salaried Plan. No application was before the Court challenging the Restated Order as regards the priority of the Directors and Officers Charge or the Critical Suppliers Charge. No change was made to the Charge Priority Clause, except that the reference

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[1] Catalyst's Reply Book ("CRB"), Tab 2 (Intial Order), paras. 26-28, 53.
[2] CRB, Tab 3 (Restated Order), paras. 25, 55.
[3] CRB, Tab 4 (Critical Suppliers Order).

to sections 81.3 and 81.4 of the BIA was deleted.[4]

6. The Appellants applied for leave to appeal to this Court on March 6, 2012. They did not seek leave to appeal from the Restated Order or the Critical Suppliers Order, and did not apply to the Court below to extend the time for applying for leave to appeal those Orders.

7. On March 8, 2012, the CCAA Judge reduced and confirmed the Directors and Officers Charge. No change was made to the Charge Priority Clause. The Appellants have not sought leave to appeal from the March 8th Order.

8. On March 9, 2012, the CCAA Judge granted the KERP and Financial Advisor Charge. No change was made to the Charge Priority Clause.[5]

9. Catalyst has no intention to wind up its pension plans as part of the CCAA process or otherwise. On March 22, 2012, Catalyst filed a Plan of Arrangement and Compromise (the "Plan") with the Court below. The Plan provides that any pension claims referred to in paragraph 6(6) of the CCAA are "Unaffected Claims" and will not be affected by the Plan.[6]

PART II: POINTS IN ISSUE

10. Catalyst submits that the following issues are raised by the Appellants' application:

(a) should the Appellants' application for leave to appeal with respect the Directors and Officers Charge and the Critical Suppliers Charge the be dismissed as out of time; and

(b) does the Appellants' application meet the criteria for granting leave to appeal?

PART III: ARGUMENT

A. TIMELINESS OF THE APPELLANTS' APPLICATION

11. Section 13 of the CCAA provides that leave to appeal is required in order to appeal an order made under the CCAA. Subsection 14(2) provides that no appeal shall be heard unless proceedings are taken to perfect the appeal within 21 days after the order or decision is made. Pursuant to subsection 14(2), only the Court appealed from (in this case, the British Columbia

[4] CRB, Tab 5 (Reasons for Judgment pronounced February 14, 2012), para. 6; Appellants' Motion Record for Leave to Appeal ("AMR"), Tab 1 (Order pronounced February 14, 2012, para. 5).
[5] AMR, Tab 3 (Order pronounced March 9, 2012); CRB, Tab 6 (Reasons for Judgment pronounced March 9, 2012 ("March 9 Reasons").
[6] CRB, Tab 7 (Plan), Section 1.1, "Unaffected Claim"; Section 2.5; CRB, Tab 1 (Baarda Affidavit #1), para. 82.

Supreme Court) has the jurisdiction to extend the time for perfecting an application for leave to appeal.[7]

12. To the extent that the Appellants challenge the priority of the Critical Suppliers Charge (granted February 6th) and the Directors and Officers Charge (granted January 31st), their application for leave to appeal is out of time and must be dismissed. The Appellants did not apply for leave until March 6, 2012, well beyond the 21 day appeal period.[8]

B. MERITS OF THE APPLICATION

13. This Court has recognized that, although no special test governs whether to grant leave to appeal under the CCAA, the application of the usual criteria for leave will, in the context of a CCAA proceeding, rarely result in leave to appeal being granted. There are two unique aspects of CCAA proceedings which lead to this conclusion: (a) the discretionary nature of most orders made in the context of the CCAA; and (b) the potential for appeals to upset "the balance between competing stakeholders that the supervisory judge has endeavoured to achieve" in the context of dynamic, "real time" proceedings. Given these considerations, the courts will "almost always" deny leave to appeal from a discretionary order made in ongoing CCAA proceedings."[9]

14. Both of these considerations are highlighted in the context of the present proceedings.

15. Section 11 of the CCAA provides:

> 11. General power of a court – **Despite anything in the *Bankruptcy and Insolvency Act*** or the *Winding-up and Restructuring Act*, if an application is made under this Act in respect of a debtor company, the court, on the application of any person interested in the matter, may, subject to the restrictions set out in this Act, on notice to any other person or without notice as it may see fit, make **any order that it considers appropriate in the circumstances**. *[emphasis added]*

16. Section 11 explicitly contemplates that a CCAA court, in the exercise of its general discretion to make orders ensuring that the objects of the CCAA are met, is not bound by the scheme of priorities set out in the BIA. Moreover, nothing in the CCAA limits the authority of a court, in the exercise of its general discretion under s. 11, to grant charges in priority to any secured or unsecured claim, including any claim based on breach of fiduciary duty. It has been

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[7] *Cage Logistics Inc., Re*, 2003 ABCA 36, 40 C.B.R. (4th) 165; *Vanguard Inc. v. Royal Bank of Canada*, 2004 SKCA 99, 4 C.B.R. (5th) 300.

[8] *Reglin v. Creston (Town)*, 2005 BCCA 635, 49 B.C.L.R. (4th) 297; *Erickson v. Jones*, 2006 BCCA 316, 226 B.C.A.C. 311.

consistently recognized that CCAA courts have a broad jurisdiction under s. 11 to make any order that realistically advances the CCAA's purpose, that is, "to permit the debtor to carry on business and, where possible, avoid the social and economic costs of liquidating its assets."[10]

17. Each of the impugned Charges ordered by the CCAA Judge is supported by authority and consistent with the general objects of the CCAA. Moreover, as regards the Critical Suppliers Charge, the Directors and Officers Charge and Financial Advisor Charge, the CCAA expressly authorizes the Orders made.[11]

18. Although s. 6(6) of the CCAA may limit the discretion of a CCAA court in approving a plan of arrangement or compromise, no such limit is imposed by s. 11 of the CCAA nor by the various provisions authorizing the Court to order various charges in priority to other debts and obligations of the subject company.[12] In any event, the Plan herein abides by s. 6(6).

19. There is thus no real question as to the authority of the CCAA Judge to make the orders that he did. The issue, if any, raised by the appeal is whether the CCAA Judge appropriately exercised his *discretion* to make those orders in the present case. Discretionary orders of the type made in this complex CCAA case are the very types of orders that should not be disturbed.

20. In Catalyst's submission, each of the impugned Charges was granted based on a careful balancing of interests within the context of the particular circumstances of the restructuring in this case. This is demonstrated, for example, in the reasons for judgment of the CCAA Judge issued in connection with the KERP and the Financial Advisor Charge:

> In reaching the conclusion to grant priority, I have attempted to balance the interests of the petitioner and its stakeholders in effecting a restructuring against the possible prejudice to a particular group that may be affected by the order sought, in this case the employees and the pensioners.
>
> In this case I am of the view that the position of those entitled to pension benefits will best be served by a successful restructuring. Such a restructuring will provide future employment and continued funding for the salaried plan.[13]

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[9] *Edgewater Casino Inc., Re*, 2009 BCCA 40, 51 C.B.R. (5th) 1 at paras. 13, 18-24; *Doman Industries Ltd., Re*, 2004 BCCA 253, 50 C.B.R. (4th) 194 at para. 13.

[10] *Century Services Inc. v. Canada (Attorney General)*, 2010 SCC 60, [2010] 3 S.C.R. 379 at paras. 15, 61-62, 71; *United Used Auto & Truck Parts Ltd., Re*, 2000 BCCA 146, 73 B.C.L.R. (3d) 236 at paras. 23-31; *Skeena Cellulose Inc., Re*, 2003 BCCA 344, 13 B.C.L.R. (4th) 236 at paras. 34-42; *ATB Financial v. Metcalfe & Mansfield Alternative Investments II Corp.*, 2008 ONCA 587, 45 C.B.R. (5th) 163 at paras. 44-52.

[11] CCAA, s. 11.4, 11.51, 11.52; *Timminco Ltd., Re*, 2012 ONSC 506 at paras. 63-75.

[12] CCAA, s. 11, 11.2(3), 11.4(4), 11.51(2), 11.52(2).

[13] CRB, Tab 6 (March 9 Reasons), paras. 43-44.

21. Each of the Charges was recognized by the CCAA Judge as being vital to the restructuring of Catalyst. After weighing the interests of the parties in the balance, the CCAA Judge concluded that a successful restructuring was in the best interests of all the stakeholders, including Catalyst's pension beneficiaries.[14]

22. As previously noted, the Plan does not compromise the claims of Catalyst's pension plans or their beneficiaries. A successful restructuring represents the best prospect of ensuring that Catalyst will fully fund the plans, not only as regards the normal cost pension contributions which are protected under s. 81.5 of the BIA, but also as regards the very substantial pension deficiency payments which Catalyst is obligated to make over the next seven years. These latter payments are not entitled to priority under the BIA and would be lost to the beneficiaries in the event of a bankruptcy. Thus, as the CCAA Judge concluded, the Charges in question would not result in any real prejudice to the Appellants.[15]

23. Furthermore, leave to appeal should not be granted in CCAA proceedings where to do so would be "prejudicial to the prospects of restructuring the business for the benefit of the stakeholders as a whole, and hence would be contrary to the spirit and objectives of the CCAA." To permit an appeal from the priority allocated to the Charges identified by the CCAA Judge as critical to the restructuring process would create uncertainty for the beneficiaries of those Charges who are intended to rely and have relied on the priority granted in providing goods or services to the debtor. The appeal would thus be highly disruptive of the restructuring process, particularly at this very sensitive stage of the process where a Plan has been filed and a meeting of Catalyst's creditors is imminent.[16]

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 12th day of April, 2012:

"William Kaplan"

William C. Kaplan, Q.C.

Peter L. Rubin

[14] CRB, Tab 6 (March 9 Reasons), paras. 3, 12, 25-29, 41, 43-48; *Canwest Global Communications Corp., Re* (2009), 59 C.B.R. (5th) 72 at para. 48 (Ont. S.C.J.); *Timminco, supra,* at paras. 45-46; CRB, Tab 1 (Baarda Affidavit #1), paras. 152-162; *Brainhunter Inc., Re*, [2009] O.J. No. 5207 at paras. 20-21 (S.C.J.).

[15] BIA, s. 81.5; CRB, Tab 6 (March 9 Reasons), para. 28

[16] *Consumers Packaging Inc., Re* (2001), 27 C.B.R. (4th) 197 at para. 5 (Ont. C.A.); *Minister of National Revenue v. Temple City Housing Inc.*, 2008 ABCA 1, 43 C.B.R. (5th) 35 at paras. 14-15; *Doman Industries, supra*, at paras. 8, 15-16; CRB, Tab 6 (March 9 Reasons), paras. 3, 12, 26, 41, 48; CRB, Tab 8 (Order dated March 22, 2012), para. 21.

LIST OF AUTHORITIES

Cases

Statutes

TAB 10

Current to March 26, 2012

R.S.C. 1985, c. B-3, s. 81.5

[eff since July 7, 2008](Current Version)

Bankruptcy and Insolvency Act

R.S.C. 1985, c. B-3

PART IV
PROPERTY OF THE BANKRUPT

General Provisions

SECTION 81.5

Security for unpaid amounts re prescribed pensions plan - bankruptcy

81.5 (1) If the bankrupt is an employer who participated or participates in a prescribed pension plan for the benefit of the bankrupt's employees, the following amounts that are unpaid on the date of bankruptcy to the fund established for the purpose of the pension plan are secured by security on all the assets of the bankrupt:

(a) an amount equal to the sum of all amounts that were deducted from the employees' remuneration for payment to the fund;

(b) if the prescribed pension plan is regulated by an Act of Parliament,

(i) an amount equal to the normal cost, within the meaning of subsection 2(1) of the Pension Benefits Standards Regulations, 1985, that was required to be paid by the employer to the fund, and

(ii) an amount equal to the sum of all amounts that were required to be paid by the employer to the fund under a defined contribution provision, within the meaning of subsection 2(1) of the Pension Benefits Standards Act, 1985; and

(c) in the case of any other prescribed pension plan,

(i) an amount equal to the amount that would be the normal cost, within the meaning of subsection 2(1) of the Pension Benefits Standards Regulations, 1985, that the employer would be required to pay to the fund if the prescribed plan were regulated by an Act of Parliament, and

(ii) an amount equal to the sum of all amounts that would have been required to be paid by the employer to the fund under a defined contribution provision, within the meaning of subsection 2(1) of the Pension Benefits Standards Act, 1985, if the prescribed plan were regulated by an Act of Parliament.

Rank of security

(2) A security under this section ranks above every other claim, right, charge or security against the bankrupt's assets, regardless of when that other claim, right, charge or security arose, except

(a) rights under sections 81.1 and 81.2;

(b) amounts referred to in subsection 67(3) that have been deemed to be held in trust; and

(c) securities under sections 81.3 and 81.4.

Liability of trustee

(3) If the trustee disposes of assets covered by the security, the trustee is liable for the amounts referred to in subsection (1) to the extent of the amount realized on the disposition of the assets, and is subrogated in and to all rights of the fund established for the purpose of the pension plan in respect of those amounts.

** Editor's Table **

Provision	Changed by	In force	Authority
81.5	2005 c47 s67	2008 Jul 07	SI/2008-78

*****

S.C. 2005, c. 47, s. 67.

Current to March 26, 2012

R.S.C. 1985, c. C-36, s. 6

[eff since January 1, 2010](Current Version)

Companies' Creditors Arrangement Act

R.S.C. 1985, c. C-36

PART I
COMPROMISES AND ARRANGEMENTS

SECTION 6.

Compromises to be sanctioned by court

6. (1) If a majority in number representing two thirds in value of the creditors, or the class of creditors, as the case may be - other than, unless the court orders otherwise, a class of creditors having equity claims, - present and voting either in person or by proxy at the meeting or meetings of creditors respectively held under sections 4 and 5, or either of those sections, agree to any compromise or arrangement either as proposed or as altered or modified at the meeting or meetings, the compromise or arrangement may be sanctioned by the court and, if so sanctioned, is binding

(a) on all the creditors or the class of creditors, as the case may be, and on any trustee for that class of creditors, whether secured or unsecured, as the case may be, and on the company; and

(b) in the case of a company that has made an authorized assignment or against which a bankruptcy order has been made under the Bankruptcy and Insolvency Act or is in the course of being wound up under the Winding-up and Restructuring Act, on the trustee in bankruptcy or liquidator and contributories of the company.

Court may order amendment

(2) If a court sanctions a compromise or arrangement, it may order that the debtor's constating instrument be amended in accord- ance with the compromise or arrangement to reflect any change

that may lawfully be made under federal or provincial law.

Restriction - certain Crown claims

(3) Unless Her Majesty agrees otherwise, the court may sanction a compromise or arrangement only if the compromise or arrangement provides for the payment in full to Her Majesty in right of Canada or a province, within six months after court sanction of the compromise or arrangement, of all amounts that were outstanding at the time of the application for an order under section 11 or 11.02 and that are of a kind that could be subject to a demand under

(a) subsection 224(1.2) of the Income Tax Act;

(b) any provision of the Canada Pension Plan or of the Employment Insurance Act that refers to subsection 224(1.2) of the Income Tax Act and provides for the collection of a contribution, as defined in the Canada Pension Plan, an employee's premium, or employer's premium, as defined in the Employment Insurance Act, or a premium under Part VII.1 of that Act, and of any related interest, penalties or other amounts; or

(c) any provision of provincial legislation that has a purpose similar to subsection 224(1.2) of the Income Tax Act, or that refers to that subsection, to the extent that it provides for the collection of a sum, and of any related interest, penalties or other amounts, and the sum

(i) has been withheld or deducted by a person from a payment to another person and is in respect of a tax similar in nature to the income tax imposed on individuals under the Income Tax Act, or

(ii) is of the same nature as a contribution under the Canada Pension Plan if the province is a "province providing a comprehensive pension plan" as defined in subsection 3(1) of the Canada Pension Plan and the provincial legislation establishes a "provincial pension plan" as defined in that subsection.

Restriction - default of remittance to Crown

(4) If an order contains a provision authorized by section 11.09, no compromise or arrangement is to be sanctioned by the court if, at the time the court hears the application for sanction, Her Majesty

in right of Canada or a province satisfies the court that the company is in default on any remittance of an amount referred to in subsection (3) that became due after the time of the application for an order under section 11.02.

Restriction - employees, etc.

(5) The court may sanction a compromise or an arrangement only if

(a) the compromise or arrangement provides for payment to the employees and former employees of the company, immediately after the court's sanction, of

(i) amounts at least equal to the amounts that they would have been qualified to receive under paragraph 136(1)(d) of the Bankruptcy and Insolvency Act if the company had become bankrupt on the day on which proceedings commenced under this Act, and

(ii) wages, salaries, commissions or compensation for services rendered after proceedings commence under this Act and before the court sanctions the compromise or arrangement, together with, in the case of travelling salespersons, disbursements properly incurred by them in and about the company's business during the same period; and

(b) the court is satisfied that the company can and will make the payments as required under paragraph (a).

Restriction - pension plan

(6) If the company participates in a prescribed pension plan for the benefit of its employees, the court may sanction a compromise or an arrangement in respect of the company only if

(a) the compromise or arrangement provides for payment of the following amounts that are unpaid to the fund established for the purpose of the pension plan:

(i) an amount equal to the sum of all amounts that were deducted from the employees' remuneration for payment to the fund,

(ii) if the prescribed pension plan is regulated by an Act of Parliament,

(A) an amount equal to the normal cost, within the meaning of subsection 2(1) of the Pension Benefits Standards Regulations, 1985, that was required to be paid by the employer to the fund, and

(B) an amount equal to the sum of all amounts that were required to be paid by the employer to the fund under a defined contribution provision, within the meaning of subsection 2(1) of the Pension Benefits Standards Act, 1985, and

(iii) in the case of any other prescribed pension plan,

(A) an amount equal to the amount that would be the normal cost, within the meaning of subsection 2(1) of the Pension Benefits Standards Regulations, 1985, that the employer would be required to pay to the fund if the prescribed plan were regulated by an Act of Parliament, and

(B) an amount equal to the sum of all amounts that would have been required to be paid by the employer to the fund under a defined contribution provision, within the meaning of subsection 2(1) of the Pension Benefits Standards Act, 1985, if the prescribed plan were regulated by an Act of Parliament; and

(b) the court is satisfied that the company can and will make the payments as required under paragraph (a).

Non-application of subsection (6)

(7) Despite subsection (6), the court may sanction a compromise or arrangement that does not allow for the payment of the amounts referred to in that subsection if it is satisfied that the relevant parties have entered into an agreement, approved by the relevant pension regulator, respecting the payment of those amounts.

Payment - equity claims

(8) No compromise or arrangement that provides for the payment of an equity claim is to be sanctioned by the court unless it provides that all claims that are not equity claims are to be paid in full before the equity claim is to be paid.

** Editor's Table **

For changes prior to Editor's Tables, please see other sources for in force information.

Provision	Changed by	In force	Authority
6	1997 c12 s123	1997 Sep 30	SI/97-114
6	2005 c47 s126	2009 Sep 18	SI/2009-68
6	2009 c33 s27	2010 Jan 1	Act, s37(1)
6(b)	1996 c6 s167(1)(d)	1996 Jun 28	SI/96-58
6(b)	2004 c25 s194	2004 Dec 15	R.A.

*****

Editor's note: S.C. 2005, c. 47, s. 126, effective September 18, 2009 (SI/2009-68), was replaced prior to its coming into force by S.C. 2007, c. 36, s. 106, effective December 14, 2007 (R.A.).

Editor's note: S.C. 1997, c. 12, s. 127, effective September 30, 1997 (SI/97-114), contained the following provision:

"Application

127. Section 120, 121, 122, 123, 124, 125 or 126 applies to proceedings commenced under the Companies' Creditors Arrangement Act after that section comes into force."

R.S.C. 1985, c. C-36, s. 6; S.C. 1992, c. 27, s. 90; S.C. 1996, c. 6, s. 167; S.C. 1997, c. 12, s. 123; S.C. 2004, c. 25, s. 194; S.C. 2005, c. 47, s. 126 as replaced by S.C. 2007, c. 36, s. 106; S.C. 2009, c. 33, s. 27.

Current to March 26, 2012

R.S.C. 1985, c. C-36, s. 11

[eff since September 18, 2009](Current Version)

Companies' Creditors Arrangement Act

R.S.C. 1985, c. C-36

PART II
JURISDICTION OF COURTS

SECTION 11.

General power of court

11. Despite anything in the Bankruptcy and Insolvency Act or the Winding-up and Restructuring Act, if an application is made under this Act in respect of a debtor company, the court, on the application of any person interested in the matter, may, subject to the restrictions set out in this Act, on notice to any other person or without notice as it may see fit, make any order that it considers appropriate in the circumstances.

** Editor's Table **

For changes prior to Editor's Tables, please see other sources for in force information.

Provision	Changed by	In force	Authority
11	1996 c6 s167(1)(d)	1996 Jun 28	SI/96-58
11	1997 c12 s124	1997 Sep 30	SI/97-114
11	2005 c47 s128	2009 Sep 18	SI/2009-68

*****

Editor's note: S.C. 1997, c. 12, s. 127, effective September 30, 1997 (SI/97-114), contained the following provision:

"Application

127. Section 120, 121, 122, 123, 124, 125 or 126 applies to proceedings commenced under the Companies' Creditors Arrangement Act after that section comes into force."

R.S.C. 1985, c. C-36, s. 11; S.C. 1992, c. 27, s. 90; S.C. 1996, c. 6, s. 167; S.C. 1997, c. 12, s. 124; S.C. 2005, c. 47, s. 128.

Current to March 26, 2012

R.S.C. 1985, c. C-36, s. 11.2

[eff since September 18, 2009](Current Version)

Companies' Creditors Arrangement Act

R.S.C. 1985, c. C-36

PART II
JURISDICTION OF COURTS

SECTION 11.2

Interim financing

11.2 (1) On application by a debtor company and on notice to the secured creditors who are likely to be affected by the security or charge, a court may make an order declaring that all or part of the company's property is subject to a security or charge - in an amount that the court considers appropriate - in favour of a person specified in the order who agrees to lend to the company an amount approved by the court as being required by the company, having regard to its cash-flow statement. The security or charge may not secure an obligation that exists before the order is made.

Priority - secured creditors

(2) The court may order that the security or charge rank in priority over the claim of any secured creditor of the company.

Priority - other orders

(3) The court may order that the security or charge rank in priority over any security or charge arising from a previous order made under subsection (1) only with the consent of the person in whose favour the previous order was made.

Factors to be considered

(4) In deciding whether to make an order, the court is to consider, among other things,

> (a) the period during which the company is expected to be subject to proceedings under this Act;

(b) how the company's business and financial affairs are to be managed during the proceedings;

(c) whether the company's management has the confidence of its major creditors;

(d) whether the loan would enhance the prospects of a viable compromise or arrangement being made in respect of the company;

(e) the nature and value of the company's property;

(f) whether any creditor would be materially prejudiced as a result of the security or charge; and

(g) the monitor's report referred to in paragraph 23(1)(b), if any.

** Editor's Table **

Provision	Changed by	In force	Authority
11.2	1997 c12 s124	1997 Sep 30	SI/97-114
11.2	2005 c47 s128	2009 Sep 18	SI/2009-68

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Editor's note: S.C. 2005, c. 47, s. 128, effective September 18, 2009 (SI/2009-68), was amended prior to its coming into force by S.C. 2007, c. 36, s. 65, effective December 14, 2007 (R.A.).

Editor's note: S.C. 1997, c. 12, s. 127, effective September 30, 1997 (SI/97-114), contained the following provision:

"Application

127. Section 120, 121, 122, 123, 124, 125 or 126 applies to proceedings commenced under the Companies' Creditors Arrangement Act after that section comes into force."

S.C. 1997, c. 12, s. 124; S.C. 2005, c. 47, s. 128 as amended by S.C. 2007, c. 36, s. 65.

Current to March 26, 2012

R.S.C. 1985, c. C-36, s. 11.4

[eff since September 18, 2009](Current Version)

Companies' Creditors Arrangement Act

R.S.C. 1985, c. C-36

PART II
JURISDICTION OF COURTS

SECTION 11.4

Critical supplier

11.4 (1) On application by a debtor company and on notice to the secured creditors who are likely to be affected by the security or charge, the court may make an order declaring a person to be a critical supplier to the company if the court is satisfied that the person is a supplier of goods or services to the company and that the goods or services that are supplied are critical to the company's continued operation.

Obligation to supply

(2) If the court declares a person to be a critical supplier, the court may make an order requiring the person to supply any goods or services specified by the court to the company on any terms and conditions that are consistent with the supply relationship or that the court considers appropriate.

Security or charge in favour of critical supplier

(3) If the court makes an order under subsection (2), the court shall, in the order, declare that all or part of the property of the company is subject to a security or charge in favour of the person declared to be a critical supplier, in an amount equal to the value of the goods or services supplied under the terms of the order.

Priority

(4) The court may order that the security or charge rank in priority over the claim of any secured creditor of the company.

** Editor's Table **

Provision	Changed by	In force	Authority
11.4	1997 c12 s124	1997 Sep 30	SI/97-114
11.4	2000 c30 s156	2000 Oct 20	R.A.
11.4	2005 c47 s128	2009 Sep 18	SI/2009-68
11.4(3)(c)	2001 c34 s33(1)	2001 Dec 18	R.A.

*****

Editor's note: S.C. 2005, c. 47, s. 128, effective September 18, 2009 (SI/2009-68), was amended prior to its coming into force by S.C. 2007, c. 36, s. 65, effective December 14, 2007 (R.A.).

Editor's note: S.C. 2000, c. 30, s. 156(2), effective October 20, 2000 (R.A.), contained the following provision:

(2) Subsection (1) applies to proceedings commenced under the Act after September 29, 1997.

1997, c. 12, s. 127, effective September 30, 1997 (SI/97-114), contained the following provision:

"Application

127. Section 120, 121, 122, 123, 124, 125 or 126 applies to proceedings commenced under the Companies' Creditors Arrangement Act after that section comes into force."

2001, c. 34, s. 33(2), effective December 18, 2001 (R.A.), contained the following provision:

(2) Subsection (1) applies to proceedings commenced under the Act after September 29, 1997.

S.C. 1997, c. 12, s. 124; S.C. 2000, c. 30, s. 156; S.C. 2001, c. 34, s. 33 (E); S.C. 2005, c. 47, s. 128 as amended by S.C. 2007, c. 36, s. 65.

Current to March 26, 2012

R.S.C. 1985, c. C-36, s. 11.51

[eff since September 18, 2009](Current Version)

Companies' Creditors Arrangement Act

R.S.C. 1985, c. C-36

PART II
JURISDICTION OF COURTS

SECTION 11.51

Security or charge relating to director's indemnification

11.51 (1) On application by a debtor company and on notice to the secured creditors who are likely to be affected by the security or charge, the court may make an order declaring that all or part of the property of the company is subject to a security or charge - in an amount that the court considers appropriate - in favour of any director or officer of the company to indemnify the director or officer against obligations and liabilities that they may incur as a director or officer of the company after the commencement of proceedings under this Act.

Priority

(2) The court may order that the security or charge rank in priority over the claim of any secured creditor of the company.

Restriction - indemnification insurance

(3) The court may not make the order if in its opinion the company could obtain adequate indemnification insurance for the director or officer at a reasonable cost.

Negligence, misconduct or fault

(4) The court shall make an order declaring that the security or charge does not apply in respect of a specific obligation or liability incurred by a director or officer if in its opinion the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct or, in Quebec, the director's or officer's gross or intentional fault.

** Editor's Table **

Provision	Changed by	In force	Authority
11.51	2005 c47 s128	2009 Sep 18	SI/2009-68

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Editor's note: S.C. 2005, c. 47, s. 128, effective September 18, 2009 (SI/2009-68), was amended prior to its coming into force by S.C. 2007, c. 36, s. 66, effective December 14, 2007 (R.A.).

S.C. 2005, c. 47, s. 128 as amended by S.C. 2007, c. 36, s. 66.

Current to March 26, 2012

R.S.C. 1985, c. C-36, s. 11.52

[eff since September 18, 2009](Current Version)

Companies' Creditors Arrangement Act

R.S.C. 1985, c. C-36

PART II
JURISDICTION OF COURTS

SECTION 11.52

Court may order security or charge to cover certain costs

11.52 (1) On notice to the secured creditors who are likely to be affected by the security or charge, the court may make an order declaring that all or part of the property of a debtor company is subject to a security or charge - in an amount that the court considers appropriate - in respect of the fees and expenses of

(a) the monitor, including the fees and expenses of any financial, legal or other experts engaged by the monitor in the performance of the monitor's duties;

(b) any financial, legal or other experts engaged by the company for the purpose of proceedings under this Act; and

(c) any financial, legal or other experts engaged by any other interested person if the court is satisfied that the security or charge is necessary for their effective participation in proceedings under this Act.

Priority

(2) The court may order that the security or charge rank in priority over the claim of any secured creditor of the company.

** Editor's Table **

Provision	Changed by	In force	Authority
11.52	2005 c47 s128	2009 Sep 18	SI/2009-68

*****

Editor's note: S.C. 2005, c. 47, s. 128, effective September 18, 2009 (SI/2009-68), was amended prior to its coming into force by S.C. 2007, c. 36, s. 66, effective December 14, 2007 (R.A.).

S.C. 2005, c. 47, s. 128 as amended by S.C. 2007, c. 36, s. 66.

Current to March 26, 2012

R.S.C. 1985, c. C-36, s. 13

[eff since April 1, 2003](Current Version)

Companies' Creditors Arrangement Act

R.S.C. 1985, c. C-36

PART II
JURISDICTION OF COURTS

SECTION 13.

Leave to appeal

13. Except in Yukon, any person dissatisfied with an order or a decision made under this Act may appeal from the order or decision on obtaining leave of the judge appealed from or of the court or a judge of the court to which the appeal lies and on such terms as to security and in other respects as the judge or court directs.

** Editor's Table **

For changes prior to Editor's Tables, please see other sources for in force information.

Provision	Changed by	In force	Authority
13	2002 c7 s134	2003 Apr 1	SI/2003-48

*****

R.S.C. 1970, c. C-25, s. 13; S.C. 2002, c. 7, s. 134.

Current to March 26, 2012

R.S.C. 1985, c. C-36, s. 14

[eff since April 1, 2003](Current Version)

Companies' Creditors Arrangement Act

R.S.C. 1985, c. C-36

PART II
JURISDICTION OF COURTS

SECTION 14.

Court of appeal

14. (1) An appeal under section 13 lies to the highest court of final resort in or for the province in which the proceeding originated.

Practice

(2) All appeals under section 13 shall be regulated as far as possible according to the practice in other cases of the court appealed to, but no appeal shall be entertained unless, within twenty-one days after the rendering of the order or decision being appealed, or within such further time as the court appealed from, or, in Yukon, a judge of the Supreme Court of Canada, allows, the appellant has taken proceedings therein to perfect his or her appeal, and within that time he or she has made a deposit or given sufficient security according to the practice of the court appealed to that he or she will duly prosecute the appeal and pay such costs as may be awarded to the respondent and comply with any terms as to security or otherwise imposed by the judge giving leave to appeal.

** Editor's Table **

For changes prior to Editor's Tables, please see other sources for in force information.

Provision	Changed by	In force	Authority
14(2)	2002 c7 s135	2003 Apr 1	SI/2003-48

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R.S.C. 1970, c. C-25, s. 14; S.C. 2002, c. 7, s. 135.