

This is the 12<sup>th</sup> affidavit of  
B. Baarda in this case and was  
made on June 26, 2012

No. S-120712  
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36, AS AMENDED

AND

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

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, S.B.C. 2002, c. 57

AND

IN THE MATTER OF CATALYST PAPER CORPORATION  
AND THE PETITIONERS LISTED IN SCHEDULE "A"

PETITIONERS

**AFFIDAVIT**

I, Brian Baarda, businessperson, of 2<sup>nd</sup> Floor, 3600 Lysander Lane, Richmond, British Columbia, AFFIRM THAT:

1. I am the Vice President, Finance and Chief Financial Officer of Catalyst Paper Corporation ("**CPC**"), a Petitioner in this proceeding (along with the other Petitioners and Catalyst Paper General Partnership, the "**Company**"), and as such I have personal

knowledge of the matters deposed to in this Affidavit except where I depose to a matter based on information from an informant I identify, in which case I believe that both the information from the informant and the resulting statement are true.

2. All capitalized terms used and not defined below shall have the same meaning as that ascribed to them in my Affidavit #1, made January 31, 2012 (the "**First Affidavit**").

### Overview

#### *CCAA Proceeding*

3. On January 31, 2012, the Petitioners were granted relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") pursuant to the Initial Order of this Court. Pursuant to the Initial Order, PricewaterhouseCoopers Inc. was appointed as Monitor.

4. On February 3, 2012, this Court granted an amended and restated form of the Initial Order (the "**Amended and Restated Initial Order**").

5. On March 22, 2012, this Court granted:

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

6. In my Affidavit #6, made March 15, 2012 (the "**Sixth Affidavit**"), I provided a detailed background of the CCAA proceedings and the corresponding proceedings in the United States under chapter 15 ("**Chapter 15**") of title 11 of the United States Code (as amended, the "**Bankruptcy Code**") up to that date.

### Claims Process

7. Since March 22, 2012, the Petitioners, with the assistance of the Monitor, have launched and have been conducting the Claims Process pursuant to the terms of the Claims Procedure Order. More specifically:

- (a) on March 29, 2012, the Monitor substantially completed its mailing of Claims Packages to Affected Creditors with Claims as evidenced by the books and records of the Petitioners;
- (b) the Monitor arranged for publication of notice of the Claims Process pursuant to the Claims Procedure Order on its website and in *The National Post*, the *Victoria Times Colonist*, the *Vancouver Sun* and *The Wall Street Journal*;
- (c) the Monitor and the Petitioner Parties have periodically received and responded to queries regarding the Claims Process;
- (d) as of June 25, 2012, the Monitor had received 2662 Proof of Claim representing approximately US\$1 billion in Claims. The Petitioners, with the assistance of the Monitor, reviewed all Proofs of Claim that were in dispute or if the amount claimed did not substantially agree with the Company's accounts payable ledger as at January 31, 2012 ;
- (e) the Monitor, with the assistance of the Petitioner Parties, completed their mailing of Notices of Revision or Disallowance to Affected Creditors whose Claims as described in their respective Proofs of Claim are being disputed by the Petitioners. In total, 125 Notices of Revision or Disallowance were delivered; and
- (f) I am advised that as of June 25, 2012, the Monitor had received 18 Notices of Dispute, representing approximately US\$219 million.

8. In addition, on April 5, 2012, the Petitioner Parties delivered to the First Lien Notes Indenture Trustee, the Monitor and the Initial Supporting First Lien Noteholders a notice (the "**First Lien Noteholders' Notice**") setting out the aggregate amount of principal and interest owing under the First Lien Notes as of April 23, 2012, the then-scheduled Meeting Date. Likewise, on April 5, 2012, the Petitioner Parties delivered to the Unsecured Notes Indenture Trustee, the Monitor and the Initial Supporting unsecured Noteholders a notice (the "**Unsecured Noteholders' Notice**") setting out the aggregate amount of principal and interest owing under the First Lien Notes as of April 23, 2012.

9. The interest calculation in both the First Lien Noteholders' Notice and the Unsecured Noteholders' Notice is based on the Meeting Date. As a result of the rescheduled Meeting Date, on April 18, 2012 and again on May 17, 2012, the Company delivered to the above parties revised First Lien Noteholders' Notices, containing the correct information in respect of the accrued interest obligation under the First Lien Notes, and revised Unsecured Noteholders' Notices, respectively, for the Meeting Dates.

10. As a result of the subsequent meeting ordered for June 25, 2012, as outlined below, the Company delivered to the interested parties a further revised First Lien Noteholders' Notice and a further revised Unsecured Noteholders' Notice, on June 20, 2012, respectively.

### **The Plan**

11. The Petitioners sought relief under the CCAA in order to create a more stable environment in which to implement a restructuring of its debt, which would allow the Petitioners to continue their business with the benefit of greater financial and operating flexibility. The restructuring is proposed to be implemented through the Plan, which would compromise the Claims of First Lien Noteholders, the Unsecured Noteholders and certain other Claims against the Petitioners and their officers and directors. On March 22, 2012, this Court accepted the Plan (as it then was) for filing.

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

13. The Plan has a number of purposes including:

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

- (b) to implement a recapitalization of the 2016 Notes and the 2014 Notes;
- (c) to enable the Company to emerge from the restructuring and move to enhance the viability of the Company.

14. Subject to the sanction of the Plan by this Court, the Plan will be implemented on the date on which conditions precedent to implementation are satisfied or, if permitted, waived.

15. The Plan, if implemented, would also enable the Petitioners to continue going concern operations and would facilitate the continued employment of a substantial number of the Petitioners' employees. As described in greater detail below, it is the expectation of the Petitioners that persons with an economic interest in the Petitioners, when considered as a whole, will derive a greater benefit from the implementation of the Plan than would result from a bankruptcy of the Petitioners.

16. In the Sixth Affidavit, I provided a summary of the Plan and the distributions thereunder.

*Amendments to the Plan*

17. Between March 22, 2012 and May 15, 2012, the Petitioner Parties made certain amendments to the Plan. On May 15, 2012, the Plan in an amended and restated form (the "**Amended Plan**") was filed with the Court.

18. Following the Amended Plan, the Petitioner Parties made certain additional amendments to the Amended Plan. On June 14, 2012, the Amended Plan in an amended and restated form (the "**Second Amended Plan**") was filed with the Court.

19. Certain of the changes to the Plan and the Amended Plan are outlined in my Affidavit #10, made June 14, 2012.

20. The changes to both the Plan and the Amended Plan were the result of extensive negotiations between the Petitioner Parties, the First Lien Noteholders, the Unsecured Noteholders, the Monitor, and other interested parties. In the view of the Petitioner

Parties, the amendments taken as a whole do not prejudice the Affected Creditors and may result in more favourable recoveries under the Second Amended Plan.

21. The senior management of the Petitioners is of the view that the Second Amended Plan represents the best available outcome for the Petitioners and their stakeholders as a whole. The transactions under the Second Amended Plan will eliminate hundreds of millions of dollars of the Petitioner Parties long-term debt and significantly reduce Catalyst's annual interest expenses. The resulting improvement in Catalyst's credit ratios and operating flexibility will put the Petitioners on an improved financial footing, with a stronger balance sheet, and with the ability to emerge from CCAA protection as a more stable competitor in the pulp and paper industry.

22. It is the expectation of the Petitioners that persons with an economic interest in the Petitioners, when considered as a whole, will derive a greater benefit from the implementation of the Second Amended Plan than would result from a bankruptcy of the Petitioners or a liquidation of their assets.

23. Sanction of the Second Amended Plan is a very important step toward a successful going concern restructuring of the Petitioners. Assuming that the Second Amended Plan is sanctioned by the Court, and the other conditions precedent to the implementation of the Second Amended Plan are met, the Petitioners anticipate that their business will continue to operate, substantially all of their current employees will keep their jobs, and Affected Creditors will receive distributions of cash and New Common Shares (as applicable). Significantly, the Petitioners will be in position to emerge from CCAA protection as a going concern.

24. The board of directors of CPC (the "**Board of Directors**"), the senior management of the Petitioners, the Initial Supporting Noteholders, the Unsecured Noteholders and the Monitor all support the Second Amended Plan and its sanction by this Court.

*Distributions under the Second Amended Plan*

25. All terms in paragraphs 26 to 32 not previously defined, shall have the meaning ascribed to them in the Second Amended Plan.

26. The Second Amended Plan contemplates treatment of certain creditors. Section 3.2 of the Second Amended Plan is as follows:

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

First Lien Notes Claims Class

- a. The First Lien Notes Claims shall be an Allowed Claim, and for the purposes of distribution shall be in the aggregate principal amount of US\$384,534,000, comprised of (i) US\$280,434,000 on account of the Class A Notes and (ii) US\$104,100,000 on account of the Class B Notes, plus the First Lien Notes Unpaid Interest.
- b. On 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 be entitled to receive its pro rata share of:
    - 1) the New First Lien Notes in the aggregate principal amount of US\$182,000,000, and
    - 2) 10,502,352 New Common Shares (which shall equal 72.933% of the New Common Shares, subject to dilution only from the issuance of New Common Shares in connection with the exercise by Unsecured Creditors of valid Equity Elections and any Management Incentive Plan); and
  - ii. each Class B Noteholder as of the Effective Date shall be entitled to receive its pro rata share of:
    - 1) the New First Lien Notes in the aggregate principal amount of US\$68,000,000, and
    - 2) 3,897,648 New Common Shares (which shall equal 27.067% of the New Common Shares, subject to dilution only from the issuance of New Common Shares in connection with the exercise by Unsecured

Creditors of valid Equity Elections and any Management Incentive Plan).

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 US\$250,000,000 plus the Unsecured Notes Unpaid Interest.
- b. On 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 be entitled to receive its pro rata share (calculated by reference to the aggregate amount of all Allowed Unsecured Claims after all Disputed Claims have been (i) Allowed or (ii) determined by Final Order in accordance with the Claims Procedure Order) of the PREI Proceeds Pool; *provided, however*, that each Equity Election Creditor, if any, shall, on or as soon as reasonably practicable after the Effective Date, in full and final satisfaction of and in exchange for all such holder's Allowed Unsecured Notes Claims, receive its pro rata share (calculated by reference to the aggregate amount of all Allowed Unsecured Claims after all Disputed Claims have been (i) Allowed or (ii) determined by Final Order in accordance with the Claims Procedure Order) of 600,000 New Common Shares.

*General Unsecured Claims*

- a. In full and final satisfaction of and in exchange for all Allowed General Unsecured Claims, each holder of an Allowed General Unsecured Claim shall be entitled to receive:
  - i. if such holder is a General Unsecured Proceeds Creditor who is not an Equity Election Creditor, its pro rata share (calculated by reference to the aggregate amount of all Allowed Unsecured Claims after all Disputed Claims have been (1) Allowed or (2) determined by Final Order in accordance with the Claims Procedure Order) of the PREI Proceeds Pool;
  - ii. if such holder is an Equity Election Creditor, its pro rata share (calculated by reference to the aggregate amount of all Allowed Unsecured Claims after all Disputed Claims have been (1) Allowed or (2) determined by Final Order in accordance with the Claims Procedure Order) of 600,000 New Common Shares; or
  - iii. 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 Allowed Unsecured Claims after all Disputed Claims have been (x) Allowed or (y) determined by Final Order in accordance with the Claims Procedure Order) of the PREI Proceeds Pool.

b. The Extended Health Benefits Claims shall be an Allowed Claim.

*Releases under the Second Amended Plan*

27. Section 7.3 of the Second Amended Plan provides that on the Effective Date the Officers, employees, legal and financial advisors, and other representatives of the Petitioner Parties; the Board of Directors and their legal and financial advisors; the First Lien Notes Indenture Trustee, the First Lien Notes Indenture Trustee's legal advisors, and the First Lien Noteholders; the members of the Steering Group and any other Initial Supporting Noteholders and their legal and financial advisors; the Initial Supporting Unsecured Noteholders and their legal and financial advisors; the Unsecured Notes Indenture Trustee and the Unsecured Noteholders; the Monitor and their legal advisors; and current and former holders of Equity Interests (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 (i) the Securities, (ii) the First Lien Notes Indentures, (iii) the Unsecured Notes Indenture, (iv) the Restructuring and Support Agreement, (v) the Second Amended Plan, (vi) the

Prior CBCA Proceedings, (vii) the CCAA Proceedings, (viii) the Chapter 15 Proceedings, and (ix) any proceedings commenced with respect to or in connection with the Second Amended Plan.

28. Section 7.3 does provide that the Released Parties shall not be released from or in respect of its obligations under the Second Amended Plan or the Restructuring and Support Agreement of if a Released Party is determined by a Final Order of a court of competent jurisdiction to have committed wilful misconduct or fraud.

29. In addition, the Unaffected Claims against the Petitioner Parties will not be released under Section 7.3 of the Second Amended Plan.

30. The Released Parties are and have been essential to the success of the Petitioner Parties' restructuring efforts and the going concern outcome represented by the Amended Plan. In many respects, the Released Parties were also instrumental in assisting the Petitioner Parties in the months leading up to the commencement of this CCAA proceeding. In particular, the First Lien Notes Indenture Trustee and First Lien Noteholders' agreed to forbear from enforcement of remedies under their respective debt instruments and worked with the Petitioner Parties to respectively craft and finance a consensual restructuring transaction that would enable the Petitioner Parties to secure a going concern outcome for their business on a sounder financial footing. The Restructuring and Support Agreement also communicated a positive message to the Petitioner Parties' employees, customers, suppliers and other stakeholders regarding the future of the Petitioner Parties' business, thereby providing crucial stability in otherwise uncertain and potentially disruptive circumstances. The agreement of the First Lien Noteholders to not enforce their rights under the First Lien Note Indenture at the time of the missed interest payment in December 2011 allowed the Petitioners to continue operations and pursue a going concern restructuring despite that default. More broadly, the First Lien Noteholders, in not enforcing any remedies under the First Lien Note Indenture, in effect allowed the Petitioners to retain approximately US\$21 million (which was the amount of the December interest payment) to fund day-to-day operations and their restructuring efforts. In addition, the First Lien Noteholders and their advisors have

been of significant assistance in furthering the restructuring from both an operational and legal perspective.

31. Further, the advisors to the Petitioner Parties and the Monitor have been instrumental in helping the Petitioners plan and carry out a restructuring that is intended to preserve enterprise value and improve the financial stability and future prospects of the Petitioners. The support and contribution provided by each of the Released Parties has provided the Petitioners' business with an essential level of stability that has enabled the Petitioners to continue going concern operations during this CCAA proceeding with little or no disruption to the overall business.

32. The future involvement and support of the Released Parties will continue to be critical to the Petitioners up to and beyond the Plan Implementation Date. Put another way, the parties that are to have claims against them released are contributing in a tangible and material way to the Second Amended Plan and the successful outcome of the Petitioners' restructuring. Moreover, without the Petitioners' commitment to include provisions in the Second Amended Plan to protect the Released Parties, it is unlikely that certain of such parties would have been prepared to support the Second Amended Plan. The releases, in effect, are provided in recognition of the significant contribution of the Released Parties to the success of the restructuring and the CCAA proceeding generally.

#### **Notice of Meeting and the Meeting Materials**

33. Pursuant to the order of this Court dated June 18, 2012, the Petitioners convened a meeting of Unsecured Creditors and a meeting of the First Lien Noteholders on June 25, 2012 (each, a "**Meeting**") for the purpose of holding votes on a resolution to approve the Second Amended Plan (the "**Resolutions**").

34. The Unsecured Creditors' Meeting and the First Lien Noteholders' Meeting were held at the Delta Vancouver Airport Hotel, 3500 Cessna Drive in Richmond, British Columbia at approximately 10:00 a.m. and 11:00 a.m. on June 25, 2012, respectively.

35. The Second Amended Plan was approved by over 99% of the First Lien Noteholders, representing approximately 99.4% in value of the First Lien Notes.

36. The Second Amended Plan was approved by over 99% of the Unsecured Creditors, representing approximately 99.56% in value of the Unsecured Claims.

**Exit Financing**

37. The Petitioners will require third-party financing in order to fund working capital requirements and other corporate purposes. It is a condition precedent to the implementation of the Second Amended Plan that the Petitioners enter into a New ABL Facility and Exit Facility (as such terms are defined in the Second Amended Plan) on terms satisfactory to the Majority Initial Supporting Noteholders.

38. The Petitioners and in consultation with the Majority Initial Supporting Noteholders, have been working diligently to comply with this condition, including by engaging in discussions with potential sources of exit financing.

39. The Company has been in discussions with a number of financial institutions and is providing financial information to these institutions to advance the process.

**Sanction of the Second Amended Plan**

40. At the time of the commencement of these CCAA proceedings, the Petitioners were experiencing significant liquidity problems and declines in demand that had a particularly negative impact on Catalyst. These financial difficulties caused the Petitioner Parties to decline to make the interest payment under the First Lien Notes on December 15, 2011. The failure to make the interest payment before the expiry of the applicable grace period under the First Lien Note Indenture had the potential to cause cross-default under the ABL Facility. The need to immediately develop and implement a long-term and sustainable solution to these challenges and potential defaults heightened the need for, and increased the benefits of, a restructuring of the Company's capital.

41. The Second Amended Plan that was presented for approval by the Affected Creditors at the Meetings is the result of extensive negotiations between the Petitioners, the First Lien Noteholders, the Unsecured Noteholders, certain other stakeholders and their respective legal and financial advisors. The Monitor has also provided input on the

drafting and development of the Second Amended Plan. The terms of the Second Amended Plan are intended to achieve a fair and reasonable balance between all Affected Creditors while providing for the financial stability and future economic viability of the Petitioners' business to the benefit of the broader stakeholder community.

42. The Second Amended Plan presents significant benefits to the Petitioners and many of their stakeholders. In particular, and among other things:

- (a) the Second Amended Plan would eliminate hundreds of millions of dollars of long-term debt and millions of dollars in annual interest payments associated with the First Lien Notes;
- (b) the Second Amended Plan would compromise the Claims of certain Affected Creditors;
- (c) the Second Amended Plan would provide for a distribution of a combination of cash (in the event PREI is sold), New First Lien Notes and New Common Shares (as such terms are defined in the Second Amended Plan); and
- (d) the implementation of the Second Amended Plan would place the Petitioners on a stable financial footing with improved credit ratios and greater operating flexibility.

43. The Petitioners are of the view that all stakeholders will benefit more from the implementation of the Second Amended Plan than from a liquidation.

#### **United States Securities Act Exemption**

44. As outlined in the Sixth Affidavit, it is my understanding that in order for the Petitioners to act in compliance with United States securities laws in issuing the securities contemplated under the Second Amended Plan, the Petitioners will seek to issue those securities pursuant to the exemption from registration set forth under section 3(a)(10) the ("US Securities Exemption") of the *United States Securities Act of 1933*, as amended (the "US Securities Act").


45. In order to rely on the US Securities Exemption, it is my understanding that the Petitioners will be required to obtain certain orders (the "Exemption Orders") in these proceedings. If the Exemption Orders are granted, the Petitioners intend to rely on the

Exemption Orders as constituting a part of the basis for claiming the exemption from the registration requirements of the US Securities Act by way of the US Securities Exemption with respect to the issuance of the securities described in the Second Amended Plan.

AFFIRMED BEFORE ME at Richmond,  
British Columbia on June 26, 2012.

A Commissioner for taking Affidavits for  
British Columbia

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Brian Baarda

**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