

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

-----	X	
	:	
In re:	:	Chapter 15
	:	
CATALYST PAPER CORP., <u>et al.</u> ,	:	Case No. 12-10221 (PJW)
	:	
Debtors. ¹	:	Jointly Administered
	:	
-----	X	

ELEVENTH DECLARATION OF BRIAN BAARDA

I, Brian Baarda, hereby declare as follows:

1. I am the Vice President, Finance and Chief Financial Officer of Catalyst Paper Corporation (“CPC”), the authorized foreign representative of the above-captioned debtors (collectively, the “Debtors” and, together with the Debtors’ non-Debtor affiliates, the “Company”). I have held these positions since November 2009. I joined the Company in 1989 and have worked in several locations and held a number of senior accounting and analysis positions until moving to the operations side of the Company in 2001 as the pulp mill manager at the former Elk Falls Division until 2003. From 2003 to 2005, I held the position of Vice President, Supply Chain. From 2005 to April 2008, I was the Vice President of the Powell River Division of CPC. From April 2008 to November 2009, I was the Vice President of Operations.

¹ These jointly administered cases are those of the following Debtors: 0606890 B.C. Ltd., Catalyst Paper Corporation, Catalyst Paper Energy Holdings Inc., Catalyst Paper General Partnership, Catalyst Pulp and Paper Sales Inc., Catalyst Pulp Operations Ltd., Catalyst Pulp Sales Inc., Elk Falls Pulp and Paper Ltd., and Pacifica Poplars Ltd. (collectively, the “Canadian Debtors”) in addition to Catalyst Paper Holdings Inc., Pacifica Papers U.S. Inc., Pacifica Poplars Inc., Pacifica Papers Sales Inc., Catalyst Paper (USA) Inc., Catalyst Paper (Recycling) Inc., Catalyst Paper (Snowflake) Inc., and The Apache Railway Company (collectively, the “U.S. Debtors”).

2. I am authorized by the Debtors to make this declaration (the “Tenth Declaration”). I submit this Eleventh Declaration in further support of the Debtors’ *Motion for Order (I) Authorizing the Debtors to Reject Certain Executory Contracts and Unexpired Leases for Nonresidential Real Property and (II) Granting Related Relief Pursuant to Bankruptcy Rules 2002 and 6006 and 11 U.S.C. §§ 105(a), 363, 1507, and 1521* (the “Rejection Motion”) [Docket No. 175].²

3. In my capacity as Vice President, Finance and Chief Financial Officer, I have been aware of and consistently informed of matters concerning the evaluation of and decision to shut down the Snowflake Mill facility owned and operated by Catalyst Paper (Snowflake) Inc. (“Snowflake”), and the rejection of the Snowflake Contracts in connection with the cessation of operations. A true and correct copy of the list of Snowflake Contracts is attached hereto as Exhibit A.

4. Except as otherwise indicated, all facts set forth in this Eleventh Declaration in support of the Rejection Motion are based upon my personal knowledge, information supplied to me by other members of the Debtors’ management and professionals, learned from my review of relevant documents, or upon my opinion based upon my experience and knowledge of the Debtors’ industry, operations, and financial condition. I am an individual over the age of 18 and, if called upon to testify, I could and would testify competently to the facts set forth herein.

5. The primary assets of Snowflake include, among other things, a 100% recycled newsprint and specialty paper manufacturing operation (the “Snowflake Mill”) located in northeastern Arizona. The Snowflake Mill has approximately 300 employees, and operates two

² Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Rejection Motion.

paper machines with a total annual capacity of 289,000 tons of newsprint and 48,000 tons of specialty papers. The assets of Snowflake also include 100% of the equity interests in The Apache Railway Corporation, which operates a shortline railroad of approximately 38 miles in length from a connection with the BNSF Railway at Holbrook, AZ to the Snowflake Mill.

6. CPC purchased the Snowflake operations, including the assets described above, from Abitibi Consolidated Sales Corporation in early 2008. Following the acquisition, North American demand for newsprint has declined sharply, while concurrently supply and fuel prices have experienced sharp volatility. Since the end of 2008, newsprint demand has declined by more than 10% annually driven by a number of factors, including reduced circulation, ongoing conservation, and migration to electronic media. Simultaneously, old news print prices have increased approximately 163% since 2009. Furthermore, freight costs have risen, as old news print needs to be sourced from more remote locations and finished product needs to be delivered farther from the Snowflake Mill.

7. Snowflake has implemented a number of operational and other measures to address the various cost pressures, including introducing the production of higher-value specialty paper grades, increasing capital investment and productivity, making quality and service improvements, fully leveraging the Snowflake Mill's environmental attributes, and entering into competitive labor agreements. However, these measures have not sufficed to offset the cost pressures.

8. Due to the various economic pressures described above, Snowflake has generated negative EBITDA since 2009, with negative EBITDA³ of US \$21.6 million in 2011 and

³ Note that EBITDA figures provided herein exclude corporate SG&A chargeable to Snowflake, some of which will translate into additional cost savings.

projected negative EBITDA of US \$2.8 million in 2012. Furthermore, in Q3 2011 the Company recorded an impairment charge of CAD\$151.0 million (US\$145.3 million), pursuant to U.S. GAAP principles, on certain assets of Snowflake.

9. In May 2011, as the Company faced the necessity of recording the impairment charge on the Snowflake assets, the Company retained RBC Capital Markets (“RBC”) as its financial advisor to explore a potential sale transaction involving the Snowflake assets. RBC marketed the assets aggressively for over a year, initially approaching eighteen (18) parties, of which eight (8) ultimately signed nondisclosure agreements. The Company and RBC pursued a lengthy sales process with a number of interested bidders, and the Company entered into negotiations with a number of prospective buyers. However, despite the comprehensive and aggressive efforts, the Company and RBC were ultimately unable to reach a binding sale agreement with an interested buyer.

10. Following the failure of the sales process, the Company consulted with its advisors and ultimately came to the decision to permanently close the Snowflake Mill, effective September 30, 2012. The Company estimates that it will incur non-recurring costs totaling approximately US \$5 million in the aggregate in connection with the closure of the Snowflake Mill. These closure costs are expected to be recouped from working capital and the sale of certain Snowflake Mill assets in 2013.

11. However, in an effort to ease the transition for customers, vendors and employees, the Company has prepared a closure plan which includes: (a) operating the Snowflake Mill through July and August in order to fulfill certain customer orders through the end of the year; (b) continuing to purchase supplies from vendors and process payment in return for such supplies in order to fulfill the remaining customer orders; (c) complying with its collective bargaining

agreements and complying with any obligations imposed by any applicable federal or state employment laws.

12. In connection with the upcoming termination of operations at the Snowflake Mill, the Debtors are now seeking to reject the Snowflake Contracts, which are listed on Exhibit A attached hereto and which are related to the Snowflake Mill operations. After the Closure Date, the Snowflake Contracts will no longer benefit the Debtors' estate, and the Debtors believe, in a valid exercise of their business judgment, supported by the Monitor, that the rejection of the Snowflake Contracts is in the best interest of the Debtors' estates. The proposed rejection of the Snowflake Contracts will result in up to US \$13 million of cost savings to the Debtors.

13. Many of the Snowflake Contracts involve the supply of wastepaper to Snowflake by various suppliers, or the transportation of either supply or finished products to and from the Snowflake Mill. After the Snowflake Mill operations cease on September 30, Snowflake will no longer require any supplies, or any related transportation. The unexpired lease of nonresidential real property included in the Snowflake Contracts relates to a parcel of real property which Snowflake leases to a lessee entity. Included in the lease are certain obligations for Snowflake to perform a number of services for the benefit of lessee. As Snowflake plans to shut down operations and terminate a large portion of its workforce effective September 30, Snowflake will no longer be able to fulfill its obligations under the lease agreement.

14. By rejecting the Snowflake Contracts, the Debtors will avoid incurring unnecessary postpetition charges relating to contracts that will no longer provide any benefit to the Debtors' estates.

15. Based on the foregoing, I believe that the relief requested in the Rejection Motion is well-justified, necessary to a successful reorganization of the Debtors, and in the best interests of the Debtors and their creditors and should be granted in full.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge, information and belief.

Dated: Richmond, British Columbia, Canada
July 31, 2012



Brian Baarda

EXHIBIT A

Snowflake Contracts

Debtor Party	Non-Debtor Counterparty	Title of Agreement¹	Mailing Address	Fax Number	Effective Date
Catalyst Paper (Snowflake) Inc.	AbiBow Recycling LLC	Recyclable Materials Purchase & Sales Agreement	AbiBow Recycling LLC 15600 JFK Blvd., Suite 600 Houston, Texas 77032 Attention: Vice President, Recycling Division	(281) 372-7099	09/14/2012
The Apache Railway Company	CIT Leasing	Master Net Railcar Lease	Angela Harmon Vice President, Leasing 154 South Grape Street Denver, CO 80246	(720) 385-2602	09/14/2012
			Liz Carrillo Senior Contract Specialist 30 S. Wacker Drive Suite 2900 Chicago, IL 60606	(312) 906-5833	
Catalyst Paper (Snowflake) Inc.	Coal Sales LLC	Coal Supply Agreement	James C. Campbell, Jr Senior Vice President/Sales & Marketing Peabody Energy Company CoalSales, LLC 701 Market Street St. Louis, MO 63101-1826	(314) 342-7529	08/31/2012
The Apache Railway Company	Flex Leasing Inc.	Letter Agreement, dated 12/20/2006	Flex Leasing I, LLC Senior Vice President – Rail Group Angela Harmon Vice President, Leasing 154 South Grape Street Denver, CO 80246	(720) 385-2602	09/14/2012
			Liz Carrillo Senior Contract Specialist 30 S. Wacker Drive Suite 2900 Chicago, IL 60606	(312) 906-5833	

¹ All listed agreements include all schedules, amendments, and extensions thereto and any and all related agreements, without limitation.

Debtor Party	Non-Debtor Counterparty	Title of Agreement¹	Mailing Address	Fax Number	Effective Date
Catalyst Paper Recycling Inc.	Friedman	Recovered Paper Supply Agreement	Friedman Recycling Companies 3640 West Lincoln Street Phoenix, AZ 85009 Attention: Mr. Morris Friedman, President	(602) 269-7521	08/31/2012
Catalyst Paper Recycling Inc.	National Fibre	Recyclable Materials Purchase & Sales Agreement	National Fiber Supply Company 55 Monroe Street Chicago, IL 60693 Attention: Kevin Henderson	(316) 636-4001	09/14/2012
			Kevin Henderson 4117 N. Ironwood Court Wichita, KS 67226	(316) 636-4001	
			Thomas L. Wood 55 East Monroe Street Chicago, IL 60603-5890		
Catalyst Paper (Snowflake) Inc.	Phoenix Newsprint	Recyclable Materials Purchase & Sales Agreement	Phoenix Newspaper Inc. 200 E. Van Buren Street Phoenix, AZ 85004 Attention: Director of Finance	(602) 444-8970	09/14/2012
Catalyst Paper (Snowflake) Inc.	Snowflake Power LLC	Ground Lease Agreement	Peter Woog President & CEO - Snowflake Power, LLC The Esplanade 2525 E. Camelback Rd. Suite 850 Phoenix, AZ 85016	(602) 476-0625	09/30/2012
			J. Jahm Najafi Chief Executive Officer - Najafi Companies The Esplanade 2525 E. Camelback Rd. Suite 850 Phoenix, AZ 85016	(602) 476-0625	
Catalyst Paper Recycling Inc.	Vista	Recovered Paper Supply Agreement	Vista Paper, LLC 1105 North Sickles Dr. North Tempe, AZ 85281	(602) 444-8970	09/14/2012

Miscellaneous:12-10221-PJW Catalyst Paper Corporation

Type: bk

Chapter: 15 v

Office: 1 (Delaware)

Assets: y

Judge: PJW

Case Flag: MEGA, LEAD

U.S. Bankruptcy Court**District of Delaware**

Notice of Electronic Filing

The following transaction was received from Van C. Durrer entered on 7/31/2012 at 8:03 PM EDT and filed on 7/31/2012

Case Name: Catalyst Paper Corporation**Case Number:** 12-10221-PJW**Document Number:** 176**Docket Text:**

Declaration (*Eleventh*) of Brian Baarda (related document(s)[175]) Filed by Catalyst Paper Corporation. (Attachments: # (1) Exhibit A) (Durrer, Van)

The following document(s) are associated with this transaction:

Document description:Main Document**Original filename:**H:\temp\convert\z Baarda Dec - Filing Version.pdf**Electronic document Stamp:**

[STAMP bkecfStamp_ID=983460418 [Date=7/31/2012] [FileNumber=10978119-0]
] [941caa7088b9dca81c91925c6db06852e8e248612dcf6bc02b316d2dc87493aee29
cc9add22e4817f81f926dc78523b5098fd1005a01662ba767c42635975bf4]]

Document description:Exhibit A**Original filename:**z Baarda - Ex A.pdf**Electronic document Stamp:**

[STAMP bkecfStamp_ID=983460418 [Date=7/31/2012] [FileNumber=10978119-1]
] [0af4fbe9eef9cef0b1362c4c9f5681c7cd39a0d3ed0d0a642b8548ec4fa745eb4b5
dd2c91dec257eb3f5dd2a5e252d3bbbc5b1f89dc921921e5896a1940a2e4f]]

12-10221-PJW Notice will be electronically mailed to:

Timothy P. Cairns on behalf of Interested Party Certain Holders of 2014 Notes
tcairns@pszjlaw.com

Timothy P. Cairns on behalf of Interested Party Certain Holders of 2014 Senior Notes
tcairns@pszjlaw.com

Mark L. Desgrosseilliers on behalf of Interested Party Andritz Inc., Andritz Ltd., and Andritz Iggesund
Tools Canada, Inc.
mdesgrosseilliers@wcsr.com, pgroff@wcsr.com;klytle@wcsr.com;hsasso@wcsr.com