

This is the 1st Affidavit of
J. Pratap in this case and was
made on August 23, 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"

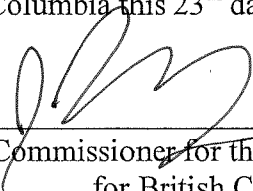
PETITIONERS

AFFIDAVIT

I, **Jennifer Pratap**, of Suite 2600 – 595 Burrard Street, Vancouver, British Columbia, Legal Administrative Assistant, SWEAR THAT:

1. I am a legal administrative assistant at Blake, Cassels & Graydon LLP, counsel for the Petitioners, and as such I have personal knowledge of the matters deposed to in this Affidavit except where I depose to a matter based on information from an informant I identify in which case I believe that both the information from the informant and the resulting statement are true.

This is **Exhibit "A"** referred to in the affidavit of Jennifer Pratap sworn before me at Vancouver, British Columbia this 23th day of August 2012.



A Commissioner for the taking Affidavits
for British Columbia

**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	Hearing Date: August 14, 2012 at 1:30 p.m. EDT Objections Due: August 7, 2012 at 4:00 p.m. EDT

**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 11 U.S.C.
§§ 105(a), 365(a), 1507, AND 1521 AND BANKRUPTCY RULES 2002 AND 6006**

Catalyst Paper Corporation (“CPC”), as the authorized foreign representative for itself and its above-captioned affiliates (collectively, the “Debtors” and, together with their non-debtor affiliates, the “Company”) in a proceeding (the “CCAA Proceeding”) under Canada’s *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “CCAA”), *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, and *Business Corporations Act*, S.B.C. 2002, c.57, before the Supreme Court of British Columbia (the “Canadian Court”), hereby moves (the “Motion”) this Court, pursuant to sections 105(a), 365(a), 1507, and 1521 of title 11 of the United States Code, 11 U.S.C. §§ 101-1532 (as amended, the “Bankruptcy Code”) and Rules 2002 and 6006 of the Federal Rules of Bankruptcy Procedure (as amended, the “Bankruptcy Rules”) for entry of an order, substantially in the form annexed hereto as Exhibit A (the “Rejection Order”) (i) authorizing the Debtors to reject certain executory contracts and unexpired leases for nonresidential real property

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”).

and (ii) granting related relief. In addition, CPC relies on the Eleventh Declaration of Brian Baarda (the "Eleventh Baarda Declaration"). In further support of the relief requested herein, CPC respectfully represents as follows:

RELIEF REQUESTED

1. By this Motion, CPC seeks approval from this Court to reject certain executory contracts and unexpired leases for nonresidential real property, in connection with the pending closure of the Arizona mill facility (the "Snowflake Mill") owned and operated by Catalyst Paper (Snowflake) Inc., a debtor in these chapter 15 cases. Although the Company has been actively marketing the Snowflake Mill for over a year, and has engaged in intensive negotiations with a number of interested parties during that time, ultimately the Company has been unable to reach a binding sale agreement on terms reasonably acceptable to the Company with any prospective buyer. Accordingly, because the Snowflake Mill has not been a positive contributor to the Company's overall performance, the Debtors have made the difficult decision to shutter the Snowflake Mill in conjunction with the Debtors' planned emergence from their successful consensual restructuring process.

2. Due to the planned shutdown of operations, the Debtors are seeking authority to reject a number of contracts relating to the Snowflake Mill. Specifically, these contracts provide for supply of materials, transportation of materials and products, and services in connection with certain real property which the Debtors will no longer need or be able to perform following plant closure. Nonetheless, the Debtors have planned an orderly process to close the Snowflake Mill. Specifically, the Debtors will continue to operate the Snowflake Mill through the end of September 2012 in order to fulfill certain outstanding customer orders, and will pay all vendors and employees through such date in the ordinary course of business. However, the Debtors, in a valid exercise of their business judgment, have concluded that following the shutdown of the Snowflake Mill, the executory

contracts and unexpired leases subject to this Motion will no longer provide any benefit to the Debtors' estates and rejection of such contracts and leases will prevent the continued accrual of unnecessary post-petition expenses.

3. Under the circumstances summarized above and described further below, CPC respectfully requests that this Court enter the proposed Rejection Order. Specifically, CPC seeks entry of an order (i) authorizing the Debtors to reject certain executory contracts and unexpired leases for nonresidential real property and (ii) granting related relief. The rejection of the executory contracts and unexpired leases at issue will greatly assist the Debtors' efforts to preserve value for their estates by avoiding unnecessary post-petition expenses, and will also assist the Company upon its emergence from the Canadian and U.S. restructuring proceedings.

JURISDICTION AND VENUE

4. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

5. Venue is proper in this district pursuant to 28 U.S.C. § 1410. The statutory predicates for the relief requested herein are Bankruptcy Code sections 105(a), 365(a), 1507, and 1521.

BACKGROUND

A. General Background

6. On January 17, 2012 (the "Chapter 15 Petition Date"), CPC filed and served notice of its motion for protection (the "CBCA Proceeding") under *Canada's Canada Business Corporations Act*, R.S.C. 1985, c. C-44 before the Canadian Court. On the Chapter 15 Petition Date, CPC also commenced the Debtors' chapter 15 cases by filing petitions pursuant to sections 1504 and 1515 of the Bankruptcy Code (collectively, the "Chapter 15 Cases").

7. CPC commenced the CBCA Proceeding in the Canadian Court, having reached a preliminary consensual arrangement with the representatives of various claimholders. The terms of that arrangement are reflected in the original restructuring support agreement dated January 14, 2012 (the "Original RSA"). CPC dismissed the CBCA Proceeding when the Original RSA parties were unable to obtain the required support from the other relevant stakeholders.

8. On January 31, 2012, CPC commenced the CCAA Proceeding, and the Canadian Court entered an initial order dated January 31, 2012 (as amended, the "Initial CCAA Order"), appointing the independent fiduciary PricewaterhouseCoopers as monitor (the "Monitor") of the CCAA Proceeding and authorizing CPC to serve as foreign representative of the Debtors.

9. On March 5, 2012, this Court entered the *Order Granting Final Relief for Recognition of a Foreign Main Proceeding Pursuant to 11 U.S.C. §§ 105(a), 1517, 1519, 1520, and 1521* [Docket No. 89] (the "Recognition Order") recognizing the CCAA Proceeding as a foreign main proceeding.

10. On March 22, 2012, the Canadian Court entered a claims procedure order (the "Claims Procedure Order") setting forth, among things, the procedure for filing proofs of claim for Restructuring Claims (as defined below) and the procedure for review and adjudication of contested claims.

11. Following the Debtors' initial failure in late May 2012 to garner sufficient support among its constituents for its Amended Plan of Compromise and Arrangement, the Debtors made a renewed attempt to obtain a consensual arrangement with its stakeholders by filing the Second Amended and Restated Plan of Compromise and Arrangement (the "Second Amended Plan") on June 14, 2012. The Second Amended Plan was approved by creditors on June 25, 2012, and was sanctioned, authorized, and approved by the Canadian Court on June 28, 2012. On July 27, 2012, this Court entered the *Order (I) Recognizing and Enforcing CCAA Sanction Order, (II) Approving*

Settlement Among the Debtors and 2014 Noteholders, and (III) Approving the Sale of Securities in Exchange for Claims Pursuant to Bankruptcy Rules 2002 and 9019 and 11 U.S.C. §§ 105(a), 363, 1507, 1525, and 1527 [Docket No. 174] recognizing and enforcing the Canadian Court's sanction order and granting related relief.

12. Additional general background regarding the Debtors' operations and the events leading up to the restructuring are detailed in the *Second Declaration of Brian Baarda* [Docket No. 39], and additional general background regarding the events leading up to the approval of the Second Amended Plan are detailed in the *Tenth Declaration of Brian Baarda* [Docket No. 156].

B. Snowflake Background

13. The primary assets ("Assets") of Catalyst Paper (Snowflake) Inc. ("Snowflake") include, among other things, a 100% recycled newsprint and specialty paper manufacturing operation located in northeastern Arizona, and 100% of the equity interests in The Apache Railway Corporation (the "Apache Shares"). See Eleventh Baarda Declaration at 5. The Snowflake Mill has approximately 300 employees, and operates two paper machines with an annual capacity of 289,000 tons of newsprint and 48,000 tons of specialty papers. See id.

14. CPC purchased the Snowflake business, including both the Snowflake Mill and the Apache Shares, from Abitibi Consolidated Sales Corporation in early 2008. See Eleventh Baarda Declaration at 6. Since CPC's acquisition of the Snowflake, North American demand for newsprint has been declining more than 10% annually since the end of 2008 due to, among other factors, reduced circulation, ongoing conservation, and migration to electronic media. Id. Concurrently, prices of old news print have increased approximately 163% since 2009. Id. This reduction in demand coupled with the volatility of supply and fuel prices has negatively impacted the profitability of the Snowflake Mill's recycled newsprint operation, and the trend is expected to

continue. Id. Snowflake has generated negative EBITDA since 2009, with negative EBITDA² of US \$21.6 million in 2011 and projected negative EBITDA of US \$2.8 million in 2012. Id. at 8. In Q3 2011, the Company recorded an impairment charge of CAD\$151.0 million (US\$145.3 million) on certain assets of Snowflake, reflecting an erosion in the economic value of the Snowflake Mill to the Company's total operations, pursuant to U.S. GAAP principles. Id.

15. The Company has implemented a number of measures at Snowflake since the 2008 acquisition to address the various pressure described above. These measures include the production of higher-value specialty paper grades at the Snowflake Mill, which previously produced only newsprint, capital investment, productivity, quality and service improvements, full leverage of the Snowflake Mill's environmental attributes, and competitive labor agreements. See Eleventh Baarda Declaration at 7.

16. In May 2011, CPC retained RBC Capital Markets ("RBC") as its financial advisor in connection with a potential transaction involving the Assets. See Eleventh Baarda Declaration at 9. After more than a year of marketing the Assets aggressively, including pursuing a lengthy sales process with a number of interested bidders, CPC ultimately entered into negotiations with a number of prospective buyers. Id. However, CPC and RBC were ultimately unable to reach a binding sale agreement with a prospective buyer. Id.

17. After careful consideration and consultation with its advisors, the Debtors have come to the decision to permanently close the Snowflake Mill, effective September 30, 2012 (the "Closure Date"). See Eleventh Baarda Declaration at 10. 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. Id. These closure costs are expected to be recouped from working capital

² Note that EBITDA figures provided herein exclude corporate SG&A chargeable to Snowflake, some of which will translate into additional cost savings.

and the sale of certain Snowflake Mill assets in 2013. Id. The Debtors will be complying with its collective bargaining agreements, and will also be complying with its notice obligations under WARN. Id. at 11. Furthermore, Snowflake will be operating the Snowflake Mill through July and August in order to fulfill customer orders through the end of the year, in order to ease the transition for its customers and provide them with additional time to find another supplier of newsprint and specialty papers. Id.

C. The Snowflake Contracts

18. In connection with a shutdown of the Snowflake Mill, the Debtors now seek to reject certain executory contracts and unexpired leases as listed on Exhibit A to the Eleventh Baarda Declaration (collectively, the “Snowflake Contracts”). The Snowflake Contracts include supply contracts, transportation and logistic contracts, and an unexpired lease for nonresidential real property and certain related services. The proposed rejection of the Snowflake Contracts will result in up to US \$13 million of cost savings to the Debtors. See Eleventh Baarda Declaration at 12.

19. Due to the upcoming termination of operations at the Snowflake Mill, the Snowflake Contracts will no longer provide any benefit to the Debtors’ estates and will, in fact, become a burden to the estates after the Closure Date. Through the rejection of the Snowflake Contracts, the Debtors will be relieved from not only paying for unneeded supplies, but also the cost of transporting such supplies, the cost of providing certain services to the lessee of real property owned by Snowflake, and other related charges associated with the Snowflake Contracts. Specifically, many of the contracts listed involve the supply of wastepaper to Snowflake by various supplier parties. Snowflake plans to purchase a sufficient supply of wastepaper from these vendors to fulfill certain customer orders through the end of the year, but will have no further use for wastepaper supply after the Closure Date. Thus, by rejecting the Snowflake Contracts, the Debtors will avoid incurring unnecessary postpetition charges for services and supplies that will provide no further

benefit to the Debtors' estates. Likewise, the Debtors will pay for the transport of supply and finished goods as needed through the closure process, but after rejection of the supply contracts, the Snowflake Mill will no longer require the same volume of materials to be transported. As for the unexpired lease of nonresidential real property, the Snowflake Mill will no longer have sufficient personnel or resources, following the Closure Date, to fulfill its service obligations under the lease.

20. Notably, the Debtors are not seeking to reject any executory contracts or unexpired leases retroactively, but are rather seeking rejection of the Snowflake Contracts effective as of the corresponding date provided in Exhibit A to the Eleventh Baarda Declaration (the "Rejection Date(s)"). The Rejection Dates range from the end of August to the Closure Date, thereby providing up to forty-five (45) days' notice of the Rejection Dates and Snowflake Mill shutdown to counterparties to the Snowflake Contracts (the "Counterparties"). All of the Counterparties will receive sufficient notice and opportunity to object to the rejection of the applicable Snowflake Contract, as the Debtors will provide notice of (a) the filing of this Motion, (b) the deadline to object to the Motion and (c) the hearing date for this Motion via facsimile and overnight mail.

21. Additionally, in order to assist the Counterparties with filing claims in the CCAA Proceeding, the Debtors have, concurrently with the notice of this Motion, also provided a claim form approved by the Canadian Court and an accompanying instruction letter (collectively, the "Claim Form"). The Counterparties will have thirty (30) calendar days following entry of the Rejection Order to submit a completed claim form to either (i) Pricewaterhouse Coopers Inc., Court-appointed Monitor of Catalyst Paper Corporation et al., 250 Howe Street, Suite 700, Vancouver, British Columbia, V6C S37, Canada, Attention: Patricia Marshall or (ii) Kurtzman Carson Consultants LLC, 2335 Alaska Avenue, El Segundo, California 90245. Therefore, the Counterparties affected by the Rejection Order will have had notice of the plant closure and corresponding rejection of the Snowflake Contracts, and will have been in possession of the Claim

Form for over six (6) weeks before the deadline to submit completed proofs of claim as required above. Any claim arising from the rejection of the Snowflake Contracts will be deemed a “Restructuring Claim” as defined in the Second Amended Plan, and following review of the claim by the Monitor and related claims reconciliation process in the CCAA Proceeding, may be eligible for distributions as set forth in the Second Amended Plan.

BASIS FOR RELIEF

A. Relief under Section 365(a) of the Bankruptcy Is Available to A Trustee and Is Necessary to Effectuate the Purposes of these Chapter 15 Proceedings Pursuant to Sections 1507 and 1521(a) of the Bankruptcy Code, and Pursuant to the Recognition Order

22. Section 1507(a) allows the Court to “provide additional assistance to a foreign representative under this title,” and section 1521(a)(7) specifically allows the Court to grant “any additional relief that may be available to a trustee,” with several specific exceptions not applicable here. 11 U.S.C. §§ 1507(a), 1521(a)(7). Similarly, courts have held that “[c]hapter 15 specifically contemplates that the court should be guided by principles of comity and cooperation with foreign courts in deciding whether to grant the foreign representative additional post-recognition relief.” In re Metcalfe & Mansfield Alternative Invs., 421 B.R. 685, 696 (Bankr. S.D.N.Y. 2010).

23. Here, CPC is requesting that the Court provide additional assistance and authorize the Debtors to exercise their business judgment and reject the Snowflake Contracts pursuant to section 365 of the Bankruptcy Code. Section 365 authorizes a trustee or debtor-in-possession to “reject any executory contract or unexpired lease of the debtor.” 11 U.S.C. § 365(a). Such relief would not only protect and maximize the value of the Debtors’ assets; it would also promote the fair and efficient administration of these Chapter 15 Cases and provide the Counterparties with a familiar process and forum in which to resolve any potential issues arising from the proposed rejection of the Snowflake Contracts. Thus, the application of section 365 of the Bankruptcy Code, and this Court’s authorization of the Debtors to reject the Snowflake Contracts under section 365 of

the Bankruptcy Code, will promote the stated objectives of chapter 15 as set forth in section 1501 of the Bankruptcy Code.

24. Other bankruptcy courts both inside and outside this district have also granted similar relief in the context of chapter 15 proceedings. See, e.g., In re Cinram Int'l Inc., Case No. 12-11882 (KJC) (Bankr. D. Del. July 25, 2012); In re Qimonda AG, Case No. 09-14766 (RGM) (Bankr. E.D. Va. July 22, 2009). The relief requested is also specifically allowed under the terms of the Recognition Order, which authorizes CPC to “apply to this Court as necessary for additional relief under section 1521(a) of the Bankruptcy Code, including, but not limited to, application of additional provisions of the Bankruptcy Code in the Chapter 15 Cases.” Recognition Order, at ¶ 5.

25. For all of the reasons stated above, the Court should afford CPC relief under section 365(a) of the Bankruptcy Code to these Chapter 15 Cases and authorize the Debtors to reject the Snowflake Contracts pursuant to section 365.

B. The Rejection of the Snowflake Contracts is a Valid Exercise of the Debtors’ Business Judgment

26. The assumption or rejection of an executory contract or unexpired lease by a debtor is subject to review under the business judgment standard. See Orion Pictures Corp. v. Showtime Networks, Inc. (In re Orion Pictures Corp.), 4 F.3d 1095, 1098 (2d Cir. 1993); Sharon Steel Corp. v. Nat’l Fuel Gas Dist. Corp., 872 F.2d 36, 40 (3d Cir. 1989); In re The Penn Traffic Co., 322 B.R. 63, 68 (Bankr. S.D.N.Y. 2005).

27. The business judgment standard is satisfied when a debtor determines that rejection of the subject contracts will benefit the estate. See In re Child World, Inc., 142 B.R. 87, 89 (Bankr. S.D.N.Y. 1992); In re Helm, 355 B.R. 528, 538 (Bankr. S.D.N.Y. 2006) (“To meet the business judgment test, the debtor in possession must ‘establish that rejection will benefit the estate’”). In applying this standard, courts show great deference to a debtor’s decision to reject an executory contract or unexpired lease, and generally will not second-guess a debtor’s business judgment. See

In re G Survivor Corp., 171 B.R. 755, 757 (Bankr. S.D.N.Y. 1994) (“Generally, absent a showing of bad faith, or an abuse of business discretion, the debtor’s business judgment will not be altered.” (citing, inter alia, In re Bildisco, 682 F.2d 72, 79 (3d Cir. 1982), aff’d sub nom. NLRB v. Bildisco & Bildisco, 465 U.S. 513 (1984)); In re Riodizio, Inc., 204 B.R. 417, 424 (Bankr. S.D.N.Y. 1997) (“[A] court will ordinarily defer to the business judgment of the debtor’s management”).

28. The Debtors clearly satisfy the business judgment standard in seeking to reject the Snowflake Contracts. Certain of the Snowflake Contracts require Snowflake to purchase supply material that Snowflake does not need. Snowflake can neither profitably use the supply material before the Closure Date, nor easily resell the supply material to another entity. Other Snowflake Contracts require Snowflake to pay transportation costs to transport the completed paper products from the Snowflake Mill to the nearest railway; as Snowflake winds down its production lines, it will not require further transportation services. Finally, the unexpired lease of nonresidential real property requires Snowflake, as lessor of the property, to provide certain services in connection with the leased property. Following the Closure Date, Snowflake will no longer have the resources or manpower on hand to provide services under the lease.³

29. After the applicable Rejection Date, the Snowflake Contracts will cease to be a potential source of value to the Debtors, and will in fact drain resources from the Debtors’ estates. Accordingly, the Debtors have determined, in the sound exercise of their business judgment and with the support of the Monitor, that the rejection of the Snowflake Contracts effective in each case as of the corresponding Rejection Date will benefit the Debtors’ estates.

³ For the avoidance of doubt, although the Debtors will not fulfill the terms and conditions of Snowflake Contracts following the Closure Date, the proposed Rejection Order does protect lessees that lease any portion of Snowflake’s nonresidential real property, consistent with the provisions of section 365(h) of the Bankruptcy Code. See 11 U.S.C. § 365(h).

C. The Procedure for Filing Restructuring Claims Arising from Rejection Is Adequate

30. Any potential claims arising from the rejection of the Snowflake Contracts may be eligible to receive distributions as “Restructuring Claims” as defined in the Second Amended Plan, under the terms of both the CCAA and the Second Amended Plan. In order to assist the Counterparties in filing completed proofs of claim in the CCAA Proceeding, the Debtors are proposing claims filing procedures (the “Filing Procedures”) which are more expansive than the requirements of the Claims Procedure Order and which conform, in pertinent part, with procedures that would otherwise apply under section 365(g) of the Bankruptcy Code.

31. Under the CCAA, when a contract is disclaimed or resiliated, “a party to the agreement who suffers a loss in relation to the disclaimer or resiliation is considered to have a provable claim.” CCAA, S. 32(7). The Second Amended Plan reflects the statute, defining “Restructuring Claim” as follows:

any right or claim of any Person against the Debtors ... in connection with any indebtedness, liability or obligation of any kind whatsoever owed by the Debtors ... 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 such restructuring, disclaimer, resiliation, termination or breach took place or takes place before or after the date of the Claims Procedure Order.

Second Amended Plan, at 12. Under the Second Amended Plan, a “Restructuring Claim” is classified as a “Claim,” and furthermore as a “General Unsecured Claim.” See Second Amended Plan, at 2, 7. Thus, the definition of Restructuring Claim under the Second Amended Plan with respect to rejected Snowflake Contracts is largely consistent with section 365(g) of the Bankruptcy Code, which generally provides that rejection of an executory contract or unexpired lease “constitutes a breach of such contract or lease . . . immediately before the date of the filing of the petition” 11 U.S.C. § 365(g)(1).

32. General Unsecured Claims are potentially eligible to receive distributions following the Monitor's review of such claims pursuant to the procedures established in the Claims Procedure Order. See Claims Procedure Order, at ¶¶ 26-29. Pursuant to the Claims Procedure Order, Restructuring Claims must be filed with the Monitor within ten (10) calendar days after receipt of any notice of disclaimer or resiliation (see Claims Procedure Order, Schedule C, at p. 11); however, as described further below, the Debtors are expanding these requirements for the benefit of the Counterparties.

33. The Debtors are making every effort to ensure that the Counterparties receive sufficient notice of rejection of the Snowflake Contracts; in some instances, as noted above and in Exhibit A to the Eleventh Baarda Declaration, the Counterparties will receive up to forty-five (45) days' notice of the Rejection Date. In addition to making the Claim Form available to Counterparties, the Debtors are also expanding the claims filing procedures for Counterparties beyond those set forth in the Claims Procedure Order, by (a) giving Counterparties thirty (30) calendar days following entry of the Rejection Order to file a completed proof of claim, instead of the ten (10) calendar days as provided in the Claims Procedure Order, and (b) allowing Counterparties to file a completed proof of claim with either KCC in the United States or with the Monitor in Canada. By implementing these steps, the Debtors seek to ease the process of filing claims arising from the rejection of Snowflake Contracts for those affected Counterparties.

34. The Filing Procedures proposed by the Debtors are more expansive than the procedures approved by the Canadian Court in the Claims Procedure Order, in order to allow the Counterparties a greater opportunity to file proofs of claim for any claims arising from the rejection of the Snowflake Contracts. Therefore, the Filing Procedures are more than sufficient and should be approved by this Court.

D. The Fourteen-Day Waiting Period Under Bankruptcy Rule 6006(d) is Not Applicable

35. Bankruptcy Rule 6006(d) provides, in relevant part, that an order “authorizing the trustee to assign an executory contract or unexpired lease under § 365(f) is stayed until the expiration of 14 days after the entry of the order, unless the court orders otherwise.” Fed. R. Bankr. P. 6006(d). No similar waiting period is imposed on orders authorizing the debtor to reject any executory contract or unexpired lease under section 365(a) of the Bankruptcy Code. CPC submits that there is no applicable stay on the effectiveness of the Rejection Order, and such Rejection Order is therefore effective immediately upon entry.

NOTICE

36. CPC proposes to notify all Notice Parties of (a) the filing of this Motion, (b) the deadline to object to the Motion and (c) the hearing date for this Motion in accordance with this Court’s *Order (I) Specifying Form and Manner of Service of Notice of Filing of Petitions and Other Pleadings Pursuant to Chapter 15 of the Bankruptcy Code and (II) Scheduling a Hearing on Chapter 15 Petitions for Recognition* [Docket No. 23] (the “Notice Order”). Furthermore, CPC proposes to notify all Counterparties of (a) the filing of this Motion, (b) the deadline to object to the Motion and (c) the hearing date for this Motion via facsimile and overnight mail. In light of the nature of the relief requested herein, CPC submits that no other or further notice of this Motion is necessary or required.

CONCLUSION

WHEREFORE, for the reasons set forth herein and in the Eleventh Baarda Declaration, CPC respectfully requests that the Court, after notice and a hearing, (a) enter the Rejection Order, substantially in the form attached hereto as Exhibit A and (b) grant any such other and further relief as this Court deems just and proper.

Dated: July 31, 2012
Los Angeles, CA

/s/ Van C. Durrer, II
Van C. Durrer, II (I.D. No. 3827)
SKADDEN, ARPS, SLATE, MEAGHER
& FLOM LLP
300 South Grand Avenue
Los Angeles, California 90071
(213) 687-5000

Counsel for Catalyst Paper Corporation

EXHIBIT A

Proposed Rejection Order

**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.	:	Jointly Administered
	:	
	:	Related Docket No.: ____
	X	

ORDER (I) AUTHORIZING THE DEBTORS TO REJECT CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES FOR NONRESIDENTIAL REAL PROPERTY AND (II) GRANTING RELATED RELIEF PURSUANT TO 11 U.S.C. §§ 105(a), 365(a), 1507, AND 1521 AND BANKRUPTCY RULES 2002 AND 6006

Upon consideration of the motion (the “Motion”)¹ of Catalyst Paper Corporation (“CPC”), as the authorized foreign representative for itself and its above-captioned affiliates (collectively, the “Debtors” and, together with their non-debtor affiliates, the “Company”) in a proceeding (the “CCAA Proceeding”) under Canada’s Companies’ Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the “CCAA”), pending before the Supreme Court of British Columbia (the “Canadian Court”), for the entry of an order, pursuant to sections 105(a), 365(a), 1507, and 1521 of title 11 of the United States Code (the “Bankruptcy Code”) and Rules 2002 and 6006 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) (i) authorizing the Debtors to reject certain executory contracts and unexpired leases for nonresidential real property and (ii) granting related relief as this Court deems just and proper; and upon consideration of the Eleventh Declaration of Brian Baarda [Docket No. ____]; and upon further consideration of the record of the hearing on the Motion having been held before this Court; and due, sufficient, and proper notice of the Motion and the relief requested therein having been provided; and it

¹ Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Motion.

appearing that no other or further notice need be provided; and it appearing that the relief requested in the Motion is in the best interests of the Debtors and other parties in interest in these chapter 15 cases (the “Chapter 15 Cases”); and after due deliberation and sufficient cause appearing therefore,

IT IS HEREBY FOUND that:²

A. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and section 1501 of the Bankruptcy Code.

B. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

C. Venue is proper in this District pursuant to 28 U.S.C. § 1410.

D. The relief granted herein is necessary and appropriate and in the interests of the public and international comity, consistent with the public policy of the United States, warranted pursuant to sections 1507 and 1521(a)(7) of the Bankruptcy Code, and will not cause hardship of any party in interest that is not outweighed by the benefits of the relief granted herein.

E. CPC has demonstrated that without the application of section 365(a) of the Bankruptcy Code, the Debtors will incur significant unnecessary postpetition charges related to the Snowflake Contracts following the shutdown of the Snowflake Mill facility. As a result, the Debtors’ estates will suffer a decrease in value and the Debtors’ creditors and other parties in interest will be harmed thereby.

F. CPC has demonstrated that the proposed rejection of the Snowflake Contracts is a valid exercise of the Debtors’ business judgment.

G. The notice given by the Debtors of the Motion, the relief requested therein, and of the hearing in respect of the Motion was timely, proper and, under the circumstances, was

² Findings of fact shall be construed as conclusions of law, and conclusions of law shall be construed as findings of fact, pursuant to Bankruptcy Rule 7052.

adequate and sufficient. No further notice of the request for the relief granted at such hearing is required.

H. The hearing held on the Motion was fair and open to all parties potentially affected by the relief requested in the Motion.

I. Cause has been shown as to why this Order should not be subject to the stay provided by the Bankruptcy Rule 6006; and therefore

NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED that:

1. The Motion is granted.
2. The Debtors are entitled to relief under sections 365(a) to the extent expressly provided in this Order, as authorized under the provisions of section 1521(a)(7) of the Bankruptcy Code.
3. Pursuant to section 365(a) of the Bankruptcy Code, the Debtors' rejection of the Snowflake Contracts is hereby approved. The Snowflake Contracts listed on Exhibit A attached hereto are hereby deemed rejected as of the corresponding date (the "Rejection Date") indicated on Exhibit A. Rejection of the Snowflake Contracts shall constitute a breach of such Snowflake Contracts immediately before January 31, 2012. The Debtors shall continue, in the ordinary course of business, to satisfy obligations arising under the Snowflake Contracts up to but excluding the Rejection Date.
4. Any claims (the "Rejection Claims") arising from the rejection of the Snowflake Contracts shall be filed on or before the thirtieth (30th) calendar day following entry of this Order consistent with the procedures set forth in this Order. Rejection Claims shall be delivered by 5:00 p.m., Pacific time, on the thirtieth (30th) calendar day following entry of this Order, to either: (i) Pricewaterhouse Coopers Inc., Court-appointed Monitor of Catalyst Paper Corporation

et al., 250 Howe Street, Suite 700, Vancouver, British Columbia, V6C S37, Canada, Attention: Patricia Marshall or (ii) Kurtzman Carson Consultants LLC, 2335 Alaska Avenue, El Segundo, California 90245.

5. Rejection Claims timely filed shall be deemed “Restructuring Claims” as defined in the Second Amended Plan and the Claims Procedure Order and, furthermore, such “Restructuring Claims” shall be bound by the terms of the Second Amended Plan. Any Rejection Claims not timely filed shall be deemed waived by the claimant and forever barred pursuant to the terms of the Claims Procedure Order, the Second Amended Plan and the Sanction Order.

6. To the extent that any Snowflake Contract is an unexpired lease of real property under which a Debtor is the lessor:

- a. If the rejection by the Debtor(s) amounts to such a breach as would entitle the lessee to treat such lease as terminated by virtue of its terms, applicable nonbankruptcy law, or any agreement made by the lessee, then the lessee under such lease may treat such lease as terminated by the rejection; or
- b. If the term of such lease has commenced, the lessee may retain its rights under such lease (including rights such as those relating to the amount and timing of payment of rent and other amounts payable by the lessee and any right of use, possession, quiet enjoyment, subletting, assignment, or hypothecation) that are in or appurtenant to the real property for the balance of the term of such lease and for any renewal or extension of such rights to the extent that such rights are enforceable under applicable nonbankruptcy law.

7. If a lessee retains its rights under subparagraph (b) of paragraph 6 of this Order, the lessee may offset against the rent reserved under such lease for the balance of the term after the date of the rejection of such lease and for the term of any renewal or extension of such lease, the value of any damage caused by the nonperformance after the Rejection Date, of any obligation of the Debtors under such lease, but the lessee shall not have any other right against the Debtors or their estates on account of any damage occurring after such date caused by such nonperformance.

8. If any lease of personal property is rejected pursuant to the procedures and provisions set forth in this Order, the leased property is no longer property of the Debtors' estates and the automatic stay under section 362 of the Bankruptcy Code is terminated with respect to such property.

9. Nothing herein, nor any action taken in connection with this Order shall be, nor shall it be construed as, a waiver of any of the Debtors' rights with respect to the Snowflake Contracts, including the right to contest any asserted claim amount or the characterization of the Snowflake Contracts and/or to assert any claim, counter-claim or defense without limitation against any Counterparty to a Snowflake Contract, whether or not such claims are related to the Snowflake Contracts.

10. Notwithstanding any provision in the Bankruptcy Rules to the contrary, including the provisions of Bankruptcy Rule 6006(d) staying the effectiveness of this Order for fourteen (14) days which are hereby waived, this Order shall be effective, and the Debtors are not subject to any stay in the implementation, enforcement, or realization of the relief granted in this Order.

11. Within two (2) business days of entry of this Order, the Debtors shall serve this Order upon the Notice Parties in accordance with this Court's *Order (I) Specifying Form and*

Manner of Service of Notice of Filing of Petitions and Other Pleadings Pursuant to Chapter 15 of the Bankruptcy Code and (II) Scheduling a Hearing on Chapter 15 Petitions for Recognition [Docket No. 23]. Furthermore, the Debtors shall serve this Order via overnight mail upon the Counterparties.

12. This Court shall retain jurisdiction with respect to any matters, claims, rights, or disputes arising from or related to the Motion or the implementation of this Order.

Dated: August __, 2012
Wilmington, Delaware

HONORABLE PETER J. WALSH
UNITED STATES BANKRUPTCY JUDGE

File a Motion: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 7:58 PM EDT and filed on 7/31/2012

Case Name: Catalyst Paper Corporation**Case Number:** 12-10221-PJW**Document Number:** 175**Docket Text:**

Motion to Reject Lease or Executory Contract *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 11 U.S.C. §§ 105(a), 365(a), 1507, and 1521 and Bankruptcy Rules 2002 and 6006* Filed by Catalyst Paper Corporation. Hearing scheduled for 8/14/2012 at 01:30 PM at US Bankruptcy Court, 824 Market St., 6th Fl., Courtroom #2, Wilmington, Delaware. Objections due by 8/7/2012. (Attachments: # (1) Notice # (2) Proposed Form of Order) (Durrer, Van)

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

Document description:Main Document**Original filename:**H:\temp\convert\Rejection Motion.pdf**Electronic document Stamp:**

[STAMP bkecfStamp_ID=983460418 [Date=7/31/2012] [FileNumber=10978107-0] [39d8bfc90bee7b2abfe6df4557c9097d0acf1345b0ac281fce0e79e953663c6c0f8090247cbeda0835661286dde3c2ea013fb2e56e31d33f83aa43ab6c828c23]]

Document description:Notice**Original filename:**2 Notice.pdf**Electronic document Stamp:**

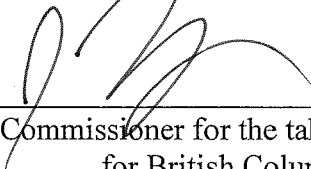
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Document description:Proposed Form of Order**Original filename:**Rejection Motion - Ex A.pdf**Electronic document Stamp:**

[STAMP bkecfStamp_ID=983460418 [Date=7/31/2012] [FileNumber=10978107-2] [6f2f09738dd90835af0d492aef878d605c02cb492ae63bf6529c459438d6cad1ae80ff752edd03656ed80b713a2d62ec5be88ba38adf31227c5c45bb34fa4399]]

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

This is **Exhibit "B"** referred to in the affidavit of Jennifer Pratap sworn before me at Vancouver, British Columbia this 23th day of August 2012.



A Commissioner for the taking Affidavits
for British Columbia

**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.

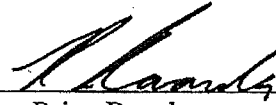
13. Many of the Snowflake Contracts involve the supply of wastepaper to Snowflake by various suppliers, or the transportation of either supply or finished products to and from the Snowflake Mill. After the Snowflake Mill operations cease on September 30, Snowflake will no longer require any supplies, 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 Agreement ¹	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 Liz Carrillo Senior Contract Specialist 30 S. Wacker Drive Suite 2900 Chicago, IL 60606	(720) 385-2602 (312) 906-5833	09/14/2012
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 Liz Carrillo Senior Contract Specialist 30 S. Wacker Drive Suite 2900 Chicago, IL 60606	(720) 385-2602 (312) 906-5833	09/14/2012

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 Agreement ¹	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 Kevin Henderson 4117 N. Ironwood Court Wichita, KS 67226 Thomas L. Wood 55 East Monroe Street Chicago, IL 60603-5890	(316) 636-4001 (316) 636-4001	09/14/2012
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 J. Jahm Najafi Chief Executive Officer - Najafi Companies The Esplanade 2525 E. Camelback Rd. Suite 850 Phoenix, AZ 85016	(602) 476-0625 (602) 476-0625	09/30/2012
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:**

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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] [0af4f9e9eef9cef0b1362c4c9f5681c7cd39a0d3ed0d0a642b8548ec4fa745eb4b5dd2c91dec257eb3f5dd2a5e252d3bbbc5b1f89dc921921e5896a1940a2e4f]]

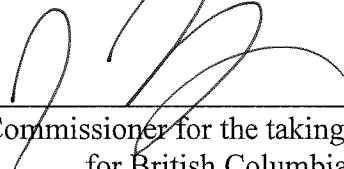
12-10221-PJW Notice will be electronically mailed to:

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

This is **Exhibit "C"** referred to in the affidavit of Jennifer Pratap sworn before me at Vancouver, British Columbia this 23th day of August 2012.



A Commissioner for the taking Affidavits
for British Columbia

**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.	:	Jointly Administered
	:	
	:	Related Docket No.: 175, 176
	X	

ORDER (I) AUTHORIZING THE DEBTORS TO REJECT CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES FOR NONRESIDENTIAL REAL PROPERTY AND (II) GRANTING RELATED RELIEF PURSUANT TO 11 U.S.C. §§ 105(a), 365(a), 1507, AND 1521 AND BANKRUPTCY RULES 2002 AND 6006

Upon consideration of the motion (the “Motion”)¹ of Catalyst Paper Corporation (“CPC”), as the authorized foreign representative for itself and its above-captioned affiliates (collectively, the “Debtors” and, together with their non-debtor affiliates, the “Company”) in a proceeding (the “CCAA Proceeding”) under Canada’s Companies’ Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the “CCAA”), pending before the Supreme Court of British Columbia (the “Canadian Court”), for the entry of an order, pursuant to sections 105(a), 365(a), 1507, and 1521 of title 11 of the United States Code (the “Bankruptcy Code”) and Rules 2002 and 6006 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) (i) authorizing the Debtors to reject certain executory contracts and unexpired leases for nonresidential real property and (ii) granting related relief as this Court deems just and proper; and upon consideration of the Eleventh Declaration of Brian Baarda [Docket No. 176]; and upon further consideration of the record of the hearing on the Motion having been held before this Court; and due, sufficient, and proper notice of the Motion and the relief requested therein having been provided; and it

¹ Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Motion.

appearing that no other or further notice need be provided; and it appearing that the relief requested in the Motion is in the best interests of the Debtors and other parties in interest in these chapter 15 cases (the "Chapter 15 Cases"); and after due deliberation and sufficient cause appearing therefore,

IT IS HEREBY FOUND that:²

1. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and section 1501 of the Bankruptcy Code.

2. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

3. Venue is proper in this District pursuant to 28 U.S.C. § 1410.

4. The relief granted herein is necessary and appropriate and in the interests of the public and international comity, consistent with the public policy of the United States, warranted pursuant to sections 1507 and 1521(a)(7) of the Bankruptcy Code, and will not cause hardship of any party in interest that is not outweighed by the benefits of the relief granted herein.

5. CPC has demonstrated that without the application of section 365(a) of the Bankruptcy Code, the Debtors will incur significant unnecessary postpetition charges related to the Snowflake Contracts following the shutdown of the Snowflake Mill facility. As a result, the Debtors' estates will suffer a decrease in value and the Debtors' creditors and other parties in interest will be harmed thereby.

6. CPC has demonstrated that the proposed rejection of the Snowflake Contracts is a valid exercise of the Debtors' business judgment.

7. As of the date of the Motion, Catalyst Paper (Snowflake) Inc. ("Snowflake") and Snowflake Power, LLC ("Power") and, together with Snowflake, the "Parties") were parties to an

² Findings of fact shall be construed as conclusions of law, and conclusions of law shall be construed as findings of fact, pursuant to Bankruptcy Rule 7052.

unexpired lease of nonresidential real property effective as of September 14, 2005 (collectively with all schedules, addenda and amendments thereto, the "Lease"), with respect to the lease of certain property for the purposes of operating a power plant in conjunction with the Snowflake Mill, which was also the subject of related agreements between the Parties. The relief requested in the Motion with respect to the Lease was vigorously disputed by Power, and such dispute could have had a disproportionate impact on the Debtors' overall restructuring efforts. In addition, any litigated outcome on the Motion would have resulted in an imperfect solution for the Parties. Specifically, the grant of the Motion would have remained subject to Power's rights to continue to occupy the leased premises, albeit without effective ability to operate a power plant, and the denial of the Motion would have avoided rejection but still left Power without effective ability to operate a power plant in the long term.

8. The Parties have successfully resolved their disputes in the context of a new agreement (the "New Agreement") attached to this order as Exhibit B. Among other things, the New Agreement provides for transition services that relieve the Debtors of certain costs, result in certainty for the Parties, and permit Power to continue to operate during a transition period. In addition, the New Agreement, along with the proposed bidding procedures (the "Bidding Procedures") attached to this order as Exhibit C provide for the disposition of the assets of Catalyst Paper (Snowflake) Inc. and the Apache Railway Company in a transparent manner consistent with section 363 of the Bankruptcy Code. The Parties believe that the New Agreement and the Bidding Procedures will maximize the value of the Debtors' U.S. assets, and result in the fair treatment of the Debtors and of Power, particularly with respect to those assets which are important to the operation of the power plant.

9. The notice given by the Debtors of the Motion, the relief requested therein, and of the hearing in respect of the Motion was timely, proper and, under the circumstances, was adequate and sufficient. No further notice of the request for the relief granted at such hearing is required.

10. The hearing held on the Motion was fair and open to all parties potentially affected by the relief requested in the Motion.

11. Cause has been shown as to why this Order should not be subject to the stay provided by the Bankruptcy Rule 6006; and therefore

NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED that:

1. The Motion is granted.

REJECTION OF CONTRACTS

2. The Debtors are entitled to relief under sections 365(a) to the extent expressly provided in this Order, as authorized under the provisions of section 1521(a)(7) of the Bankruptcy Code.

3. Pursuant to section 365(a) of the Bankruptcy Code, the Debtors' rejection of the Snowflake Contracts is hereby approved. The Snowflake Contracts listed on Exhibit A attached hereto are hereby deemed rejected as of the corresponding date (the "Rejection Date") indicated on Exhibit A. Rejection of the Snowflake Contracts shall constitute a breach of such Snowflake Contracts immediately before January 31, 2012. The Debtors shall continue, in the ordinary course of business, to satisfy obligations arising under the Snowflake Contracts up to but excluding the Rejection Date.

4. Any claims (the "Rejection Claims") arising from the rejection of the Snowflake Contracts shall be filed on or before September 13, 2012, consistent with the procedures set forth

in this Order. Rejection Claims shall be delivered by 5:00 p.m., Pacific time, on September 13, 2012, to either: (i) Pricewaterhouse Coopers Inc., Court-appointed Monitor of Catalyst Paper Corporation et al., 250 Howe Street, Suite 700, Vancouver, British Columbia, V6C S37, Canada, Attention: Patricia Marshall or (ii) Kurtzman Carson Consultants LLC, 2335 Alaska Avenue, El Segundo, California 90245.

5. Rejection Claims timely filed shall be deemed “Restructuring Claims” as defined in the Second Amended Plan and the Claims Procedure Order and, furthermore, such “Restructuring Claims” shall be bound by the terms of the Second Amended Plan. Any Rejection Claims not timely filed shall be deemed waived by the claimant and forever barred pursuant to the terms of the Claims Procedure Order, the Second Amended Plan and the Sanction Order.

6. To the extent that any Snowflake Contract is an unexpired lease of real property under which a Debtor is the lessor:

- a. If the rejection by the Debtor(s) amounts to such a breach as would entitle the lessee to treat such lease as terminated by virtue of its terms, applicable nonbankruptcy law, or any agreement made by the lessee, then the lessee under such lease may treat such lease as terminated by the rejection; or
- b. If the term of such lease has commenced, the lessee may retain its rights under such lease (including rights such as those relating to the amount and timing of payment of rent and other amounts payable by the lessee and any right of use, possession, quiet enjoyment, subletting, assignment, or hypothecation) that are in or appurtenant to the real property for the balance of the term of such lease

and for any renewal or extension of such rights to the extent that such rights are enforceable under applicable nonbankruptcy law.

7. If a lessee retains its rights under subparagraph (b) of paragraph 6 of this Order, the lessee may offset against the rent reserved under such lease for the balance of the term after the date of the rejection of such lease and for the term of any renewal or extension of such lease, the value of any damage caused by the nonperformance after the Rejection Date, of any obligation of the Debtors under such lease, but the lessee shall not have any other right against the Debtors or their estates on account of any damage occurring after such date caused by such nonperformance.

8. If any lease of personal property is rejected pursuant to the procedures and provisions set forth in this Order, the leased property is no longer property of the Debtors' estates and the automatic stay under section 362 of the Bankruptcy Code is terminated with respect to such property.

9. Nothing herein, nor any action taken in connection with this Order shall be, nor shall it be construed as, a waiver of any of the Debtors' rights with respect to the Snowflake Contracts, including the right to contest any asserted claim amount or the characterization of the Snowflake Contracts and/or to assert any claim, counter-claim or defense without limitation against any Counterparty to a Snowflake Contract, whether or not such claims are related to the Snowflake Contracts.

APPROVAL OF SETTLEMENT

12. The terms of the settlement between Snowflake and Power embodied in the New Agreement attached hereto as Exhibit B are approved. The Debtors are hereby authorized to

enter into and perform the New Agreement. The terms of the New Agreement will be binding on any successor, assignee or purchaser of Snowflake and/or any of its assets.

13. The Bidding Procedures attached hereto as Exhibit C are approved. The Debtors are hereby authorized to negotiate a breakup fee of up to 3% of the total purchase price offered by a designated stalking horse bidder.

ADDITIONAL RELIEF

14. The Debtors are authorized and empowered to take such steps and perform such actions as may be necessary to implement and effectuate the terms of this Order.

15. Notwithstanding any provision in the Bankruptcy Rules to the contrary, including the provisions of Bankruptcy Rule 6006(d) staying the effectiveness of this Order for fourteen (14) days which are hereby waived, this Order shall be effective, and the Debtors are not subject to any stay in the implementation, enforcement, or realization of the relief granted in this Order.

16. Within two (2) business days of entry of this Order, the Debtors shall serve this Order upon the Notice Parties in accordance with this Court's *Order (I) Specifying Form and Manner of Service of Notice of Filing of Petitions and Other Pleadings Pursuant to Chapter 15 of the Bankruptcy Code and (II) Scheduling a Hearing on Chapter 15 Petitions for Recognition* [Docket No. 23]. Furthermore, the Debtors shall serve this Order via overnight mail upon the Counterparties.

17. This Court shall retain jurisdiction with respect to any matters, claims, rights, or disputes arising from or related to the Motion or the implementation of this Order.

Dated: August __, 2012
Wilmington, Delaware

HONORABLE PETER J. WALSH
UNITED STATES BANKRUPTCY JUDGE