



Court File No. S120712

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

AFFIDAVIT OF RONALD GARY McCAG  
(sworn September 25, 2012)

I, Ronald Gary McCag of the City of Port Alberni, in the Province of British Columbia,  
MAKE OATH AND SAY AS FOLLOWS:

1. I am a retiree of the Catalyst Paper Corporation ("Catalyst"). I worked with Catalyst for approximately 37 years.
2. I am currently the Chair of the Steering Committee of the Catalyst Salaried Employees & Pensioners Group (the "CSEP") which was founded to protect the retirees and salaried employees of Catalyst after it filed for CCAA protection on January 31, 2012. As such, I have personal knowledge of the matters to which I depose herein except where stated to be based upon information or belief.

3. I swear this Affidavit in support of an application for the payment by Catalyst of certain legal costs incurred by CSEP in this proceeding through its retainer of Koskie Minsky LLP (“KM”) and for the payment of the costs of CSEP’s financial advisor in this proceeding, the firm of Ernst & Young. Catalyst has refused to pay these amounts.

4. I am a member of the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the “Salaried Plan”). The Salaried Plan is severely underfunded by approximately \$115 million on a wind-up basis.

5. I and a number of my former colleagues, all of whom had entitlements under the Salaried Plan, were very concerned that as a consequence of Catalyst filing for CCAA protection, the Salaried Plan would be wound up in deficit, resulting in significant reductions to the amount of pension benefits payable to all elderly retirees of Catalyst.

6. I and several of my former colleagues believed that the retirees needed effective representation in Catalyst’s CCAA proceeding and were of the view that given KM’s expertise and experience in pension and insolvency matters, they were the best firm to represent the retirees.

7. CSEP’s efforts and initiatives in this proceeding resulted in a favourable outcome for not only CSEP members but all Catalyst retirees and employees by preserving the Salaried Plan and seeing the company emerge successfully from CCAA protection with a Plan of Compromise approved by its creditors.

8. In particular, CSEP did the following to protect the rights of CSEP members:

(a) CSEP advocated quickly to address the risk to members’ pension claim priority after the Initial CCAA Order was issued on January 31, 2012. CSEP was the only pensioner representative to advocate for the elimination of certain language in paragraph 55 of the Initial Order that subordinated employee/pension claims to the DIP Lender Charge and other creditors. CSEP was successful in securing additional protection for employees and pensioners by negotiating the removal of terms in the Initial Order that had the effect of:

- (i) employee/pension claims being subordinated to the 2016 Notes Security; and
- (ii) employee/pension claims pursuant to section 81.5 and 81.6 of the *Bankruptcy and Insolvency Act* being subordinated to the DIP Lender's Charge;

(b) CSEP raised concerns to the Court about the prejudicial impact on retirees of the SISP and the Stalking Horse Agreement and was the only pensioner group who expressed those concerns when those applications were brought before this Court. The concern was that if those processes were implemented they would result in the wind up of the underfunded Salaried Plan with significant losses to pension benefits.

(c) CSEP advanced the PBSA deemed trust claim in April, 2012. Despite initial opposition by the company and the 2016 Noteholders, the company eventually supported CSEP's deemed trust application. CSEP's deemed trust application was a significant factor in the negotiations that led to the company formulating the Amended Plan of Compromise;

(d) CSEP was the only pensioner advocate to actively work toward supporting the Plan of Compromise at both creditors meetings including the successful vote on May 23, 2012. CSEP was the only pensioner representative to file a claim to vote in support of the first Plan of Compromise. CSEP was active in the lead up to the vote, particularly when it became apparent that there was considerable risk that the Plan would not pass the vote. CSEP was the only pension group who attended the first vote and spoke to support the Plan.

(e) Following Catalyst's unsuccessful attempt to pass the first Plan of Compromise, CSEP led the process to negotiate and convince other stakeholders, as well as the company, to proceed with an Amended Plan of Compromise. CSEP arranged meetings and telephone conversations with counsel to the 2016 Noteholders, counsel to the 2014 Noteholders, Catalyst, the Monitor, the provincial government, unions and other shareholders. Catalyst actively requested CSEP's

assistance in passing the Amended Plan including requesting that CSEP write to the B.C. government to support the company's Regulatory Pension Proposal that would give considerable financial relief to the company in the funding of the pension deficit owing to the Salaried Plan.

9. As a result of the foregoing efforts which were recognized by stakeholders, the Monitor, the public and the B.C. government, all of which ultimately benefited Catalyst, CSEP incurred costs in certain months in excess of the amount that was originally contemplated when CSEP agreed to the \$30,000 fee cap in a Fee Memorandum with Catalyst. CSEP has asked the company to cover the balance of these costs. Catalyst has refused.

#### **CSEP was instrumental in the achievement of the Amended Plan of Compromise**

10. One critical application brought by CSEP for the benefit of retirees was for a declaration that the assets of Catalyst were subject to a deemed trust pursuant to the B.C. *Pension Benefits Standards Act* (the "PBSA"), and as such are to be paid in priority to the claims of other creditors. CSEP's application was served on or about April 13, 2012, when had become clear that there was a real risk that the assets of Catalyst would be sold under the SISP and that the Salaried Plan would be wound up in its underfunded state.

11. Without CSEP's pending deemed trust application, coupled with the other strategic steps that CSEP undertook, including negotiations with the provincial government and other stakeholders, the Amended Plan of Compromise would never have come into existence, the company would have been sold, the Salaried Plan would have been wound up in deficit, and pension benefits would have been cut.

#### **Communications with CSEP retirees throughout the proceeding**

12. From the outset of the establishment of the CSEP steering committee, I and my fellow committee members took active steps to keep the CSEP membership informed of the status of the proceeding via mass emails, telephone discussions and meetings.

13. Various "town hall" meetings were also held over the course of the proceeding, where I and other members of the CSEP steering committee (and lawyers from KM) were in attendance. These meetings took place as follows:

- a) February 23, 2012 in Richmond;
- b) April 3, 2012, in Qualicum Beach; and,
- c) April 4, 2012, in Powell River.

### **Government relations**

14. I and other members of the steering committee had various discussions with provincial and municipal government officers to garner support for an Amended Plan of Compromise, including the following individuals:

- Mayor John Douglas in Port Alberni;
- Mayor Dave Formosa in Powell River;
- Colin Hansen (MLA);

15. These meetings were very productive in generating government support for an Amended Plan of Compromise and to prevent the wind-up of the Salaried Plan. We also spoke with at least six other MLAs about this issue.

16. In my view, the combination by CSEP of advocacy, negotiations and government engagement coupled with its pending deemed trust application were all instrumental in persuading the company and other creditors to support the Amended Plan of Compromise and stop the sales process.

17. This assessment is reflected in a media story from *The Daily News* by Robert Barron dated July 4, 2012, a copy of which is attached hereto as **Exhibit “A”**. Mr. Barron notes that “[r]etired employees at Catalyst Paper mills on Vancouver Island were the driving force behind a restructuring deal that will keep the beleaguered forest company afloat.”

18. This assessment was further reflected in a story published in the *Victoria Times Colonist*, dated June 26, 2012, which observed that:

A determined bunch of pensioners with shrewd lawyers played an important role in getting the company’s restructuring plan approved Monday, the second time around. The first restructuring plan presented

to creditors failed last month because a couple of U.S. investment funds tried a power play. . . .

Under the rules governing the process, pensioners weren't considered an affected party. So they weren't considered creditors, so they didn't have a vote. . . .

So they executed an ingenious move. They surrendered all their extended health benefits and granted the company much more time to replenish the pension fund. Those moves meant forgoing a million dollars worth of value, including significant health-insurance coverage. But it qualified them as unsecured creditors, which gave them some voting power.

They also campaigned intensely for a second vote.

And behind the scenes, they launched their own power play. They threatened to apply for an order that would have deemed their pensions a "deemed trust." It's a contentious issue in pension law, now before the Supreme Court of Canada, that could effectively put pensioners at the front of the line in any insolvency cases, ahead of all other lenders.

The threat, combined with the benefits for the company in their concessions, changed the equation for the hedge funds.

A true copy of this article is attached hereto as **Exhibit "B"**.

19. The foregoing analysis accords with my own and CSEP's view and demonstrates the extent to which CSEP directly contributed to the successful restructuring of Catalyst that resulted in the Amended Plan of Compromise. I also believe that this view is widely held among the public, as well as among provincial political officials.

20. Despite what in my view were fair and helpful activities by CSEP for Catalyst retirees and the company itself, senior Catalyst management has been uncooperative with CSEP since its formation. In particular, for several months the company blocked access to emails from me. The company has refused to pay the disbursements concerning CSEP's financial advisor (Ernst & Young) who was retained to advise CSEP on these proceedings and falsely accused E&Y of frivolous disbursements for airfare upgrades. Catalyst has recently unilaterally terminated the payment of all further costs of CSEP while at least two issues directly relating to the Plan of Compromise remain outstanding.

21. I swear this Affidavit in good faith and for no other or improper purpose.

SWORN BEFORE ME at  
in the province of British  
Columbia, on September 19, 2012.

A Commissioner for taking Affidavits, etc.

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**RONALD GARY MCCAIG**

This is Exhibit....."A".....referred to in the  
affidavit of. Ronald Barry McGeary  
sworn before me, this.....  
day of. September.....20.62.

.....  
A COMMISSIONER FOR TAKING AFFIDAVITS

Wednesday » September  
19 » 2012

## Retired employees play huge role in allowing Catalyst mills to remain open

**Robert Barron**

Daily News

*Wednesday, July 04, 2012*

Retired employees at Catalyst Paper mills on Vancouver Island were the driving force behind a restructuring deal that will keep the beleaguered forest company afloat.

Pensioners from Catalyst mills in Port Alberni, Crofton and Powell River were integral in the discussions that convinced the province to approve reduced costs to the company's pension plan.

It was part of an 11th-hour deal between the company and its creditors that became the accepted strategy to reduce its debt from \$650 million to \$250 million and allowed Catalyst, and its approximately 7,000 Island employees, to continue operations.

Workers taking the initiative to ensure the continued operations of local mills during the ongoing global downturn in the forest industry is not new to the region. Employees at the Harmac pulp mill in Nanaimo decided to combine forces and joined a number of private investors to become part-owners of the mill and prevent its closure after its parent company, Portland's Pope & Talbot, went bankrupt in 2008.

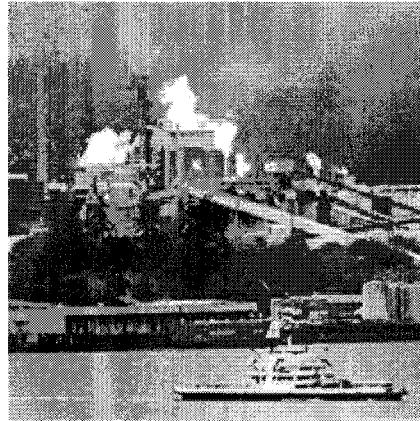
However, analysts agree that the ongoing struggles in B.C.'s forest industry will likely continue, at least for the short-term, despite enterprising and entrepreneurial moves by forestry workers to revive and restore individual mills.

Kevin Mason, an industry analyst with Vancouver's Equity Research Associates, said it's noteworthy that Catalyst's retired workers decided to "have a voice" and were willing to get involved in the process to save their pensions, albeit at reduced rates, and the company itself.

However, Mason said similar scenarios and many other B.C. mills are unlikely.

"Some mills and their workers can sacrifice all they want and there will still be no pot of gold at the end of the rainbow because the markets for their products continue to suffer," he said.

"While some domestic markets for our forest products are starting to look encouraging, the export market continues to plummet. The industry is far from being out of the woods yet."



CREDIT: Times Colonist

The Catalyst pulp mill in Crofton is one of the facilities that will continue operating after a restructuring deal was reached to keep the beleaguered forest company afloat.

It has been a difficult five-year stretch for Nanaimo's struggling forest industry.

The collapse of the American housing market in 2007, the main market at the time for most of the province's forest exports, hit local saw and pulp mills hard.

A series of work curtailments, shutdowns and the layoff of hundreds of local forestry workers followed and many mills are still working with skeleton crews on minor contracts until market conditions improve.

The successful relaunch of the Harmac pulp mill, with its new worker-led ownership model, in 2008 was widely seen as one of the few bright spots in a battered industry.

Harmac president Levi Sampson said, while the model may work for Harmac, he agreed that the mill's accomplishment may not be easily replicated with other forest companies.

He said that in the case of Catalyst and many other of B.C.'s forest companies, employees may not be able to buy into their companies "in any meaningful way" due to their enormous debt loads.

Sampson said Nanaimo Forest Products, consisting of the workers and private investors, were able to buy the Harmac mill for just \$13.2 million and that allowed the employees to invest into a big stake of the mill.

"The worker-led model has allowed us the ability to decrease our costs and still be internationally competitive in these hard times," Sampson said.

"While all companies are different and face their own challenges, I'd recommend our model to anyone. In my view, the success with many forest companies these days lies in a ground-up approach with significant investment from the workers."

Arnold Bercov is the president of the Pulp and Paper Workers' Union Local 108, which represents employees at Harmac and at Western Forest Products' sawmill in Ladysmith.

He said that while he's optimistic that the local forest industry will eventually recover, he doesn't necessarily see its revival coming as a result of drastically changing the structure of B.C.'s forest companies.

"There are so many factors to consider, including the fact that the Chinese and European economies are stuck in neutral right now and it's a struggle for everyone to survive until there's an upturn in the industry," he said.

"But I do think things will eventually get better. We have the best wood basket in the world and we're geographically positioned on the water to take advantage of the markets when they recover."

Mason said the demand for B.C.'s wood products is still shrinking and, with changing markets, he wondered if it will ever regain its vibrancy.

"It's a fact that people are switching away from news print and are increasingly turning to mobile devices for their information," he said.

"We're seeing quite a shift in the market as people's habits change and that means demand for many of our wood products continues to shrink."

## **NANAIMO MILLS**

Number of employees at Nanaimo's mills:

- 800 Approximate number of workers at Western Forest Products' two city mills in 2008
- 300 Approximate number of WFP workers currently at the two mills
- 525 Approximate number of workers at Harmac pulp mill in 2008
- 300 Approximate number of workers now at Harmac
- 160 Approximate number of workers at Coastland Wood Industries

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This is Exhibit..... referred to in the  
affidavit of..... **Ronald Barry McLair**  
sworn before me, this.....  
day of..... **September** 20. 62.  
.....  
A COMMISSIONER FOR TAKING AFFIDAVITS

# Les Leyne: 'Seniors' moment' pays off for Catalyst

BY LES LEYNE, TIMES COLONIST JUNE 26, 2012

There's something compelling from a generational perspective about the latest chapter in Catalyst Paper's bid to carry on as an industrial force in B.C.

A determined bunch of pensioners with shrewd lawyers played an important role in getting the company's restructuring plan approved Monday, the second time around.

The first restructuring plan presented to creditors failed last month because a couple of U.S. investment funds tried a power play. Catalyst's plan to continue operating three mills in Powell River, Port Alberni and Crofton was obviously in the best interests of the workers, the communities and Vancouver Island. But the hedge funds holding some of Catalyst's debt tried to block it, just to squeeze a few more cents on the dollar out of the process.

It's just an assumption on my part, but I picture some youngish MBAs executing this hardball manoeuvre with a certain attitude. No hard feelings if your mills close and get sold for scrap, and communities suffer. It's just business.

They blocked the approval of the plan last month by a thin margin and it looked like their mercenary approach had won. Catalyst Paper showed little inclination at first to contest the result. It put itself up for sale as the process dictated. A breakup of the company - with huge uncertainty for thousands of people - became a real possibility.

Except the pensioners decided to fight back. They are retired salaried staff of all the predecessors that have owned Catalyst properties in years gone by - MacMillan Bloedel, Fletcher Challenge, B.C. Forest Products, et al.

Those names have faded into history. But the pensioners sure haven't.

They weren't even directly involved in the first vote on the plan. Under the rules governing the process, pensioners weren't considered an affected party. So they weren't considered creditors, so they didn't have a vote.

Nonetheless, if it failed, their pensions would be cut 35 per cent, since the company would wind up with a huge deficiency in its pension plan. It put the pensioners in the strange position of only being considered players after the game was already lost.

So they executed an ingenious move. They surrendered all their extended health benefits and granted the company much more time to replenish the pension fund. Those moves meant forgoing a million dollars worth of value, including significant health-insurance coverage. But it qualified them as unsecured creditors, which gave them some voting power.

They also campaigned intensely for a second vote.

And behind the scenes, they launched their own power play. They threatened to apply for an order that would have deemed their pensions a "deemed trust." It's a contentious issue in pension law, now before the Supreme Court of Canada, that could effectively put pensioners at the front of the line in any insolvency cases, ahead of all other lenders.

The threat, combined with the benefits for the company in their concessions, changed the equation for the hedge funds. As well, one creditor changed its mind and another came on board. The final part of the campaign to win the second attempt came Friday, when some other members of the small holdout group agreed to give in, if Catalyst paid their legal costs.

It all paid off Monday, when secured and unsecured creditor groups each voted 99 per cent in favour of the plan.

There were some other chapters in this story. Catalyst CEO Kevin Clarke wrote an angry letter about the B.C. government's lack of action on the eve of a meeting with Premier Christy Clark. She pulled an important cabinet minister, Pat Bell, off the file and delegated deputy finance minister Peter Milburn and Liberal MLA Colin Hansen to resolve problems.

Catalyst Paper still faces a lot of uncertainty. But it has won some property-tax breaks from the communities and some concessions from the unions. Now it has shed a large share of the debt it was carrying (\$700 million) and has a fighting chance to carry on.

A lot of interests came together, but the retirees' decision to give something up in order to get something back looks to be a key move.

It gives a new meaning to the term "seniors' moment."

Their "moment" consisted of several weeks of hard work executing some innovative strategic thinking that paid off in a big win for everyone.

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