



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 AS AMENDED**

**AND**

**IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*  
SBC, 2002, CHAPTER 57**

**AND**

**IN THE MATTER OF CATALYST PAPER CORPORATION AND THE  
PETITIONERS LISTED IN APPENDIX "A"  
(COLLECTIVELY THE "COMPANY")**

**MONITOR'S SECOND REPORT TO COURT  
[Prepared for the February 6, 2012 Court Hearing]**

**February 6, 2012**



**CATALYST PAPER CORPORATION, ET AL  
MONITOR'S SECOND REPORT TO COURT**

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# CATALYST PAPER CORPORATION, ET AL MONITOR'S SECOND REPORT TO COURT

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## 1. INTRODUCTION

- 1.1 On January 31, 2012 (the "Order Date"), on the application of Catalyst Paper Corporation, Catalyst Pulp Operations Limited, Catalyst Pulp Sales Inc., Pacifica Poplars Ltd., Catalyst Pulp and Paper Sales Inc., Elk Falls Pulp and Paper Limited, Catalyst Paper Energy Holdings Inc., 0606890 B.C. Ltd., Catalyst Paper Recycling Inc., Catalyst Paper (Snowflake) Inc., Catalyst Paper Holdings Inc., Pacifica Papers U.S. Inc., Pacifica Poplars Inc., Pacifica Papers Sales Inc., Catalyst Paper (USA) Inc. and The Apache Railway Company (collectively referred to as "Catalyst" or the "Company"), the Supreme Court of British Columbia (the "Court") made an order (the "Initial Order") granting Catalyst protection from its creditors pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA"). Under the Initial Order, PricewaterhouseCoopers Inc. ("PwC") was appointed Monitor of the Companies (the "Monitor").
- 1.2 Pursuant to the Initial Order, among other things, all creditors were stayed from commencing or continuing any proceedings against Catalyst until February 14, 2012, the date set for the Comeback Hearing.
- 1.3 The Monitor has produced the following reports to date:
  - 1.3.1 A pre-filing report dated January 31, 2012 (the "Pre-filing Report"); and
  - 1.3.2 Report #1 dated February 2, 2012 (the "Monitor's First Report").
- 1.4 On February 3, 2012, the Company applied to the Court for an Order that, among other things, designated certain suppliers as critical ("Critical Suppliers") and created a charge over the Company's assets as security for any amounts owing to the Critical Suppliers for goods and services delivered after the Order Date.
- 1.5 Although the Court did declare the relevant suppliers to be Critical Suppliers, the remainder of the application (ordering credit and the priority of the charge to be granted) was adjourned until February 6, 2012 to enable the Company to provide further information to the Court and for the Monitor to present further details and analysis with respect to the Critical Suppliers, including the impact on the cash flow forecast in the event the Critical Suppliers were paid on delivery. This Report is prepared for the purpose of advising the Court with respect to these matters.

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## 2. CRITICAL SUPPLIERS – ROLES IN THE SUPPLY CHAIN

2.1 16 Critical Suppliers have been identified by the Company. In the six week period preceding the start of the CCAA proceedings, many of the Company's suppliers insisted upon reducing their credit exposure by revising the Company's credit terms downward, shortening their contractual or historical terms. Among the critical suppliers, almost all compressed their terms during the period leading up to January 27, 2012. The historic terms have always been kept confidential by the Company.

2.2 These 16 Critical Suppliers are discussed below by supplier category.

### *Fibre Supply*

2.3 The Company has identified four of its fibre suppliers as critical to the ongoing operations of the Company. These four suppliers provide the majority of the Company's fibre supply, and are under existing contracts for annual volumes. The continued, uninterrupted supply of fibre of a consistent high quality is essential to the Company's ability to continue manufacturing paper and pulp. Any change to the quantity of fibre supplied, timing of deliveries or pricing of fibre would adversely affect the Company's ongoing operations and harm its ability to service its customers.

2.4 The process for obtaining and paying for fibre is not a typical ordering process:

2.4.1 The Company cannot anticipate the volume of fibre it will receive on a daily basis because suppliers "push" shipments of wood chips and logs to the Company on a continuous basis. The Company does not "order" chips. Rather, chips produced by the supplier in its operations are delivered to the Company on an ongoing basis.

2.4.2 The Company, not the supplier, does the final calculation of the value of a particular volume of chips delivered; based on the inspection and analysis of fibre it receives. Fibre received by barge is volumetrically scaled. As fibre is received by truck, it is weighed, sampled and tested for dry content in a process taking roughly 48 hours. After this process, the Company determines the volume in dry weight it has received and calculates a credit note for what it owes to suppliers based on that volume. Fibre suppliers receive supporting documentation of the Company's testing results for shipments being paid. This allows them to confirm the completeness of payments and review the testing results affecting payment.

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- 2.4.3 Payment terms are specified by contract. These terms vary by supplier and by product within a single supply contract. As well, the Company has multiple contracts with some of its suppliers, each of which has separate credit terms. As such, there is no consistent credit term established by the existing supply arrangements.
  - 2.4.4 Prior to the Company's CCAA proceedings, the existing supply processes and payment terms had been in place for a very long period of time. The contract terms and operating procedures were well established and followed by the Company and suppliers alike. In the future, it is anticipated that the Company will continue to manage operations according to the same processes, rather than amending them as a result of the proceedings.
  - 2.4.5 The Monitor has been advised that the Company believes it would be more practical to maintain its existing credit terms with suppliers than to change to a common set of terms. Further, the Company does not consider cash deposits to be practical in the case of fibre as the deposits may not be in proportion to actual fibre deliveries.
- 2.5 International Forest Products ("Interfor"):
- 2.5.1 Interfor is one the largest suppliers of Western Red Cedar ("WRC") chips used in the Company's Kraft pulp for specific customers. They supply Hemlock for the Company's Paper operations as well as pulp logs. The Company has advised the Monitor that there are no other replacement volumes of WRC or Sawmill Hemlock chips that are available on the B.C. coast. Catalyst also buys hog fuel from Interfor's sawmills which is used in the Company's power boilers.
- 2.6 Timberwest Forest Products ("Timberwest"):
- 2.6.1 Timberwest is a major supplier of pulp logs to the Company, and also provides sawlogs to coastal sawmills (contractual arrangements) as directed by Catalyst so Catalyst can receive those sawmill chips as well.
- 2.7 Tolko Industries ("Tolko"):

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2.7.1 Tolko is the Company's largest supplier of SPF chips (interior species) which are used at the Company's Powell River operation to make the Company's highest quality uncoated paper grades. These chips allow higher brightness characteristics. The chips are also used at the Crofton operation for a high quality pulp. The Company has advised that there are no other available sawmill suppliers who can replace these volumes.

2.8 Western Forest Products ("WFP"):

2.8.1 Western is the Company's largest coastal supplier of chips, pulp logs and hog fuel. They provide Western Red cedar chips, Douglas fir chips and Hemlock chips for both paper and pulp operations. The Company has advised the Monitor that there are no other sawmill sources of this volumes available on the coast. Western is also a major source of pulp logs for Catalyst which are made into chips at third party chipping operations.

2.8.2 WFP has threatened to enforce liens over the Company's goods.

## ***Freight***

2.9 The Company uses different modes of transport including sea, rail and road for movement of raw materials and finished product. Any delay in the release of goods in transit, or any interruption to the Company's transportation network, could impact the manufacturing operations and/or delivery of finished goods.

2.10 All of the Company's mills affected by the Critical Suppliers are located on the B.C. coast. Much of the Company's fibre supply, and some of its finished goods, travel by sea. The Company has advised the Monitor that for practical reasons, the Company cannot fully substitute sea freight with other modes of transportation.

2.11 While the Company has access to all major class one railways, their customers are often served by a single railway. The Company would incur significantly higher costs if it were to attempt to change railways at its shipping point. As well, for certain customers there are very few alternatives to rail other than road. Trucking may be unaffordable from a delivery cost perspective due to distance and many customers are not able to handle large volumes of trucks.

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- 2.12 The critical truck carriers identified have been designated as core carriers that are assured certain volumes into specific trade lanes, so that equipment and backhauls can be optimized. There may be some alternatives available, but in the near term, the Company has advised the Monitor that it would incur higher costs and may be unable to secure sufficient capacity. Additionally, no alternatives exist for certain transportation companies due to the high volumes required and the specific trailers that need to be used to transport raw materials such as chips. The Company has advised the Monitor that it uses substantial volumes of truck transportation every day and finding alternative, cost-effective capacity to service its customers on short notice would be very difficult.
- 2.13 Seaspan Marine Corporation ("Seaspan"):
- 2.13.1 Seaspan controls virtually all movement by sea of the Company's raw materials on the B.C. coast. It also moves the vast majority of all paper product shipments into the Company's distribution centre in Surrey which distributes over 90% of paper produced by the Company to its customers. The Company has advised the Monitor that Seaspan is the only supplier that can provide the services required by Catalyst.
- 2.13.2 The Company has further advised that no other supplier has sufficient capacity to handle the daily volumes required by Catalyst and no other supplier is interested in the business. Catalyst requires up to 50 barges at a time and no other supplier has the capacity available to meet the Company's volume requirements. Additionally, Seaspan has the only rail/chemical barge on the West Coast which Catalyst requires for certain chemical shipments.
- 2.13.3 Seaspan has moved to enforce maritime liens over the Company's goods for unpaid shipping costs.
- 2.14 CN Freight ("CN"):
- 2.14.1 The Company has advised the Monitor that CN is a critical supplier for both inbound and outbound freight. No other economic alternatives for receipt or delivery of goods exist at many delivery points for the Company.
- 2.14.2 CN has threatened to enforce liens over the Company's goods.

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2.15 Coastal Pacific Express ("CPX"):

2.15.1 CPX is a critical trucking and transportation supplier on the West Coast. The Company has advised the Monitor that it cannot replace the significant capacity supplied by CPX for the Port 'Alberni mill and will need to ensure continued supply from CPX.

2.16 BNSF Railway Company ("BNSF"):

2.16.1 BNSF is almost exclusively responsible for the first stage of all inbound and outbound shipments from the Company's Snowflake plant, as well as for many customer shipments to the US from the Company's Canadian distribution centre.

2.16.2 The Company has advised the Monitor that BNSF has the ability to cause significant disruptions, especially to the Company's US operations in the event of any delay or stoppage of shipments.

2.16.3 BNSF unilaterally halted shipments shortly after the January 15, 2012 CBCA restructuring announcement as BNSF attempted to negotiate new credit terms. BNSF's supply shut down caused delays in shipments to key customers and supply delays impacted production at the Snowflake Mill.

2.17 Swift Transportation ("Swift"):

2.17.1 Swift is a dedicated supplier who is a key trucking transportation supplier throughout the US. The Company has advised the Monitor that significant volumes and specialized services provided by Swift Transportation could not be replaced by other carriers in the short term.

***Chemicals, Fillers & Furnish***

2.18 The Company's critical chemical, filler and furnish suppliers provide a range of chemical inputs that are essential to the Company's manufacturing process. The specific inputs depend on the particular type of paper being manufactured. These chemical inputs must meet certain specifications in order to be compatible with the Company's manufacturing process, and to meet the requirements of end users of the Company's products.

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- 2.19 The critical suppliers identified are either high-volume or dedicated suppliers providing these chemicals in accordance with the Company's specifications. The Company relies on one supplier for the provision of most or all of a particular chemical input, either due to their ability to meet the Company's volume requirements or because they are the only producer of those inputs. There are a limited number of global suppliers of certain of the Company's inputs, so the Company is reliant on the continued supply from its existing supplier base. As a result, the Company has advised the Monitor that its ability to switch suppliers in the short term without causing a significant disruption to its operations, is very limited.
- 2.20 Even if alternative suppliers are available, the process for evaluating chemical inputs from new suppliers is time consuming and costly, and could have a material negative impact on operations in the interim. Any disruption to supply could shut down to the Company's manufacturing operations.
- 2.21 The Company has also advised the Monitor that due to the unique logistic requirements of some of the Company's mills being on tidewater, and the specialized nature of the transportation equipment required for various inputs and chemicals, alternate supply options are limited, particularly in the short term.
- 2.22 Canexus Chemicals Canada LP ("Canexus"):
- 2.22.1 Canexus is the major local supplier of caustic soda, a critical chemical input used in the Company's manufacturing process. The product is critical to the ongoing operations in Company.
- 2.22.2 The Company has advised the Monitor that it sources approximately three-quarters of its caustic soda from Canexus. Their second supplier sources the product from Asia, and could not replace volumes lost in the short term. Any increased supply from them would have significant lead time.
- 2.23 Chemtrade West Limited ("Chemtrade"):
- 2.23.1 Chemtrade supplies about 85% of the Company's sulfur dioxide and sulfuric acid. These are critical chemicals in the Company's kraft pulping process and its thermo-mechanical bleaching process.

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2.23.2 The Company has advised the Monitor that there are very few alternate suppliers available if Chemtrade was to refuse shipping to the Company, particularly within a reasonable distance from the Company's operations. Chemtrade is the only freight-logical supplier currently with sufficient capacity to fulfil the company's requirements. Additionally, due to the very specialized nature of rail cars and trucks required for products like sulfur dioxide, major changes in the supply chain or suppliers would take months.

2.24 Erco Worldwide ("Erco"):

2.24.1 Erco is the sole supplier to the Company of sodium chlorate, which is the primary bleaching component used in Kraft pulp. The Company has advised the Monitor that this is a commodity that is currently experiencing very strong demand, and it would be very difficult to find sufficient volume to replace Erco in the short term.

2.24.2 Prior to the CCAA proceedings, the Company agreed with Erco to shift the transfer of title for sodium chlorate shipped from shipping point to shipping destination so that Erco would be able to exercise lien rights over any goods in transit.

2.25 Evonik Degussa ("Evonik"):

2.25.1 Evonik is the sole supplier to Snowflake of hydrogen peroxide, a critical chemical used in the de-inking and bleaching processes. The Company has advised the Monitor that it would be very difficult to replace Evonik in the short term, both from a volume perspective and finding sufficient transportation equipment to shift the supply chain.

2.25.2 As Evonik is the sole supplier of its product to the Company, there is concern that Evonik may not continue supplying the Company on any credit terms.

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2.26 Rohm and Haas Canada LP ("Rohm and Haas"):

2.26.1 Rohm & Haas is the sole supplier of borol (sodium borohydride) to all of the Company's operations. This is a critical chemical used in the company's hydro bleaching process and the Company has advised the Monitor that it would be very difficult to replace Rohm & Haas or change the bleaching process in the short term. There are no other borol facilities near B.C. and an alternate supply would likely involve higher shipping costs and lead to time to implement new transportation and supply arrangements.

2.27 National Starch ULC ("National Starch"):

2.27.1 National Starch (which was recently acquired by Corn Products International) is the sole supplier of wet end starch used in the paper making process at all of the Company's production facilities. These are highly modified cationic starches that are critical to the papermaking process and the Company has advised the Monitor that they could not easily be substituted in the short term. Additionally, the bulk of this starch is tapioca starch produced in Thailand with a long and complex supply chain. It would be very difficult to find alternative sources for the product in the short run.

2.28 Searles Valley Minerals ("Searles"):

2.28.1 Searles Valley is the sole supplier of soda ash to the Company's Snowflake, AZ. production facility. Soda ash is a critical commodity in the management of emissions from the mill's powerhouse operations. The Company has advised the Monitor that it would be very difficult to replace Searles Valley in the short term, both from a volume perspective and finding sufficient transportation equipment to shift the supply chain.

**3. CRITICAL SUPPLIERS – GENERAL COMMENTS FROM  
FEBRUARY 3<sup>RD</sup>**

3.1 As noted above, at the February 3, 2012 hearing, the Company sought an order of this Court that 16 vendors of goods and services be deemed Critical Suppliers. The order contemplated provided that the terms and conditions of supply were to revert to those in place as at January 27, 2012. Given that this would necessarily involve the designated

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Critical Suppliers providing credit to the Company (for varying degrees of time), as security for the payment of the Company's obligations to the Critical Suppliers for goods and services delivered after the Order Date, the Company sought an order creating a charge over the Company's assets (the "Critical Suppliers' Charge") in an aggregate amount of \$11.8 million, the estimated projected amount of credit exposure to the 16 vendors based on the credit terms in place on January 27, 2012 (the "Existing Credit Terms").

- 3.2 Based on the submissions made by counsel for the Company, counsel for the proposed Critical Suppliers opposing the application and other counsel, it appeared to the Monitor that there was some confusion and/or misunderstanding with respect to certain information contained in the Company's cash flow forecast and its stated need to continue the pre-filing credit terms that had been negotiated with the Critical Suppliers. As a result, the Monitor has in this Report provided additional information and analysis to assist the Court and creditors generally to understand these matters. In particular, the Monitor addresses the following:
- 3.2.1 Whether the Company would be negatively impacted if the Critical Suppliers were paid in accordance with terms less favourable than the Existing Credit Terms, including, more specifically, on COD terms; and
- 3.2.2 Whether alternative credit terms (e.g. 7 or 14 day payment terms from receipt of invoice) that might be ordered by the Court would result in a fair and equitable treatment among all Critical Suppliers.

## 4. CLARIFICATION OF THE INITIAL CASH FLOW

- 4.1 The initial cash flow forecast for the period February 1<sup>st</sup> to April 30<sup>th</sup> filed by the Company on its initial application has been reproduced in this report as Appendix B.
- 4.2 Additional information has been included in the cash flow forecast, being a new line at the bottom entitled "Unused DIP loan". This represents the amount of funds available to the Company to make payment of its current obligations. This is calculated by taking (i) the availability under the DIP loan (based on the net borrowing base pursuant to the DIP Loan Agreement), less (ii) the threshold level required by the DIP lender of \$26.5 million (i.e. the level below which the DIP lender takes control of cash receipts), plus (iii) cash on hand. As an example, for the period ending February 5, 2012, the estimated amount

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available to the Company to make payments totalled \$26.3 million. The lowest level of available funds during the forecast is in the period ending February 26, 2012, where the Company is estimated to have \$5.5 million to make payments. In the Monitor's view, this is an extremely low level of cushion and it will be breached should there be an unfavourable variance in the timing of cash receipts or cash disbursements.

- 4.3 During the February 3, 2012 hearing, reference was made to paragraph 3.13.2 of the Monitor's First Report. In this section, the Monitor makes reference to the available liquidity ranging from \$32.0 to \$61.7 million. It appears that some parties interpreted this "available liquidity" to equate to funds available by the Company to make payments generally. This is not an accurate interpretation.
- 4.3.1 Paragraph 3.13.2 of the Monitor's First Report is a sub-set of section 3.13 of that report and should be read in conjunction therewith. This section addresses the relative security of the proposed Critical Suppliers' Charge and for that purpose it is appropriate to include the \$26.5 million borrowing base threshold that the DIP lender uses to maintain its cushion of security prior to taking collateral preservation actions. As a result, although there is \$32 million of available liquidity for security purposes, there is only \$5.5 million available to the Company to spend based on the DIP loan agreement.
- 4.4 The initial cash flow forecast provided by the Company (attached as Appendix B) has been prepared assuming certain credit terms related to the supply of goods and services post filing. The assumptions are based on the Company's knowledge of its vendors as well as input from the Monitor based on its experience with the level of post filing credit that parties are generally prepared to provide to companies in creditor protection situations. In total, the Company has over 2,500 vendors and a comprehensive analysis was performed using categories of vendors rather than each vendor individually. It was impractical to assign credit terms to each vendor given the large number of creditors.
- 4.5 The sub-set of vendors that the Company is seeking to establish as Critical Suppliers represents some of its larger and most important vendors. The credit terms that the Company is seeking to have imposed on the Critical Suppliers is important to the assumptions incorporated into the initial cash flow, and accordingly, if the terms sought are not provided by the vendors, then there will be material negative variances in the cash flow forecast.

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**5. CASH FLOW SCENARIO - CRITICAL SUPPLIERS ON COD**

- 5.1 The Critical Suppliers who opposed the Company's application argued that credit ought not to be required and COD terms were appropriate. At the request of the Court, the Monitor has worked with the Company to prepare an alternative scenario cash flow forecast that incorporates COD credit terms from the 16 Critical Suppliers. This alternative cash flow is referred to as the Proforma COD cash flow forecast and is attached as Appendix C.
- 5.2 The overall impact to the initial cash flow forecast of the COD terms is to consume cash more quickly as a result of the lost credit. The following are some of the implications of the accelerated cash usage:
- 5.2.1 The Company would move into a deficit funding position during the period ending February 26, 2012 in the amount of \$5.9 million. A deficit funding situation is not permitted under the DIP loan agreement and accordingly, the Company would be unable to make certain of its forecast payments.
- 5.2.2 The DIP loan agreement was approved based on the initial cash flow and if the Critical Suppliers were paid COD as contemplated in the Proforma COD cash flow, then negative variance triggers set out in the DIP loan agreement will come close to being tripped, which could render the DIP loan agreement in default.
- 5.3 An additional concern with a COD scenario with the 16 Critical Suppliers, particularly those suppliers opposing the relief sought by the Company, is that in many cases, COD in reality means cash in advance ("CIA"). As an example, in the first 4 days of this CCAA administration, Critical Suppliers have required the Company to make payments to them totalling \$3.5 million in respect of goods and services which have yet to be received - i.e. the payments are not COD, they are CIA. The length of time that it will take to receive the goods and services varies by supplier, but the Monitor is advised by the Company that as of the close of business on February 3, 2012, none of the goods or services which were pre-paid had been received by the Company.
- 5.4 The estimated impact to the initial cash flow forecast of removing the forecasted credit from the Critical Suppliers and moving to COD as set out in the Proforma scenario will require an incremental amount of cash from the Company totalling between \$12 million and \$15 million. The Proforma cash flow scenario has used the low end of the range and

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has provided for only \$12 million. Accordingly, it is possible that the actual impact could be the consumption of more cash than forecasted.

## 6. ALTERNATIVE CASH FLOW SCENARIOS

- 6.1 At the February 3 court hearing, there was discussion surrounding cash flow scenarios that represented COD terms, 7-day terms, and 14-day terms as they related to the 16 Critical Suppliers. In this section, the Monitor has attempted to assist the Court and other interested parties to understand this issue.
- 6.2 The original cash flow forecast prepared by the Company (Appendix B) generally provides for an average of 7-day credit terms across all 2,500 plus vendors. This represents an average and does not necessarily hold when referencing an individual vendor. Some vendors have been on COD terms for a period prior to the filing and the logistical nature of the goods provided to the Company make this arrangement practical for both the vendor and the Company in those cases. Other vendors are providing 45-day terms and for various reasons, are content to do so. However, on average, the cash flow forecast reflects 7-day terms.
- 6.3 With respect to the 16 Critical Suppliers, the nature of the arrangements varies from vendor to vendor and in several cases, there are multiple arrangements with a given vendor for the different goods or services that are provided. Furthermore, the trigger point for ascertaining when credit begins and how it builds in each case is multifaceted and, in the view of the Monitor, it would be very time consuming to implement new arrangements between each Critical Supplier and the Company.
- 6.4 As an example of the above, chips are shipped to Catalyst without the ability of the vendor to determine the value of a shipment until the chips have been delivered, tested and weighed, and a report prepared by Catalyst and provided to the vendor. Credit terms commencing from the initiation of shipment, from the transfer to a freight intermediary, from the delivery to Catalyst, or from the completion of the documentary procedures to ascertain the value, would each produce significantly different outcomes in respect of the Company's cash flow. For these types of reasons, the Monitor is of the view that establishing a 7-day or 14-day term period for these Critical Suppliers *en masse* would be difficult for the Company and, in certain cases, the vendor to implement and understand what is meant by that new arrangement.

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6.5 For these reasons, the practical solution was suggested that the terms revert to the terms in place with each of the Critical Suppliers as of January 27<sup>th</sup>. These arrangements were clearly understood and able to be implemented by the logistics and accounting groups at both the vendor and the Company. Generally speaking, the effect of the January 27<sup>th</sup> credit terms can be described as ranging from 3 days to 15 days, depending on the vendor, the product in question, and the circumstances of the Company's consumption.

## 7. NATURE AND EXTENT OF THE CRITICAL SUPPLIERS' CHARGE

7.1 The aggregate amount of credit sought from the Critical Suppliers totals \$11.8 million. An amount has been calculated by the Company, with the Monitor's oversight, for each of the 16 Critical Suppliers based on the terms in place as at January 27, 2012.

7.2 The credit terms sought are individual to each vendor, taking into account the following factors:

7.2.1 The unique and specific circumstances of the goods and services that are provided;

7.2.2 The logistical and historical procedures developed cooperatively between the Company and each vendor with respect to ordering the product or service, determination of the value of each transaction, as well as invoicing and verification procedures; and

7.2.3 The length of time individual transactions between the Company and the vendor typically take to complete.

7.3 On February 3<sup>rd</sup>, Counsel for one of the Critical Suppliers suggested the Critical Supplier Charge, which provides security and protection to the vendors in return for the requirement to extend credit, ought to be broken down into amounts individual to each supplier. The Monitor is of the view that this is a good suggestion as it will provide the following incremental benefits:

7.3.1 Each vendor can manage its own credit exposure in a similar manner to what was in place prior to the filing; and

7.3.2 Each vendor will not need to concern itself whether other Critical Suppliers are extending greater credit to the Company than is required by the terms of the

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Critical Suppliers' Charge, thereby avoiding the risk that the aggregate charge is inadequate due to the over-supply of goods and services by other Critical Suppliers.

- 7.4 At the February 3<sup>rd</sup> application, the Company proposed a Critical Suppliers' Charge in an amount calculated by reference to the amount of credit to be requested from the Critical Suppliers, namely each in the aggregate amount of \$11.8 million. Taking into account the concerns raised by the opposing parties, the Monitor thinks that a solution may be to provide each Critical Supplier with a charge that is higher than the amount of credit to be advanced by that Critical Supplier. This would provide each vendor with a cushion for their incremental protection to deal with matters such as in-transit transactions. A cushion in the amount of 20% would be appropriate in the view of the Monitor.

## 8. RECOMMENDATIONS

- 8.1 The Monitor reconfirms its advice to the Court as follows:

- 8.1.1 Each of the 16 vendors identified by the Company as Critical Suppliers are necessary for the continued, uninterrupted operation of the Company and, in the Monitor's view, it is reasonable in the circumstances for each to be required to provide goods and services to the Company on terms that are consistent with the Existing Credit Terms that had been negotiated between each of the Critical Suppliers and the Company. The aggregate impact of this is to require the Critical Suppliers to provide trade credit to Catalyst in an amount which should not exceed \$11.8 million.
- 8.1.2 The Critical Suppliers should be granted a Critical Suppliers' Charge as security for their trade credit exposure should they be obligated to continue to supply in accordance with the Existing Credit Terms.
- 8.1.3 With respect to the Critical Suppliers' Charge, the Monitor suggests that it may be beneficial if:
- 8.1.3.1 It were broken down for each individual Critical Supplier so as to secure the expected exposure of each such vendor; and

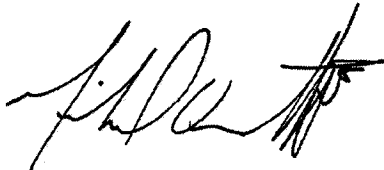
**CATALYST PAPER CORPORATION, ET AL  
MONITOR'S SECOND REPORT TO COURT**

**February 6, 2012**

8.1.3.2 An amount of cushion should be included for each Critical Supplier.  
The Monitor recommends a cushion of 20% for each vendor (i.e. a total  
Critical Suppliers' Charge of \$14.2 million).

This report is respectfully submitted this 6<sup>th</sup> day of February, 2012.

**PricewaterhouseCoopers Inc.  
Court Appointed Monitor of  
Catalyst Paper Corporation et al**



**Michael J. Vermette  
Senior Vice President**



**Neil Bunker  
Vice President**

# **APPENDIX A**

## **List of Petitioners**

**CATALYST PAPER CORPORATION, ET AL  
MONITOR'S SECOND REPORT TO COURT**

**February 6, 2012**

**List of Petitioners**

Catalyst Paper Corporation  
Catalyst Pulp Operations Limited  
Catalyst Pulp Sales Inc.  
Pacifica Poplars Ltd.  
Catalyst Pulp and Paper Sales Inc.  
Elk Falls Pulp and Paper Limited  
Catalyst Paper Energy Holdings Inc.  
0606890 B.C. Ltd.  
Catalyst Paper Recycling Inc.  
Catalyst Paper (Snowflake) Inc.  
Catalyst Paper Holdings Inc.  
Pacifica Papers U.S. Inc.  
Pacifica Poplars Inc.  
Pacifica Papers Sales Inc.  
Catalyst Paper (USA) Inc.  
The Apache Railway Company

## **APPENDIX B**

**Company's initial cash flow forecast**

# Catalyst Paper Corporation et al.

## CAA Cash Flow Forecast for the Period January 31, 2012 to April 30, 2012 - As Filed

In CAD\$ millions

Period #	1	2	3	4	5	6	7	8	9	10	11	12	13	90
Calendar Days in Period	5-Feb	12-Feb	19-Feb	26-Feb	3-Feb	11-Mar	18-Mar	25-Mar	31-Mar	8-Apr	15-Apr	22-Apr	30-Apr	Total
<b>Receipts - Operating</b>														
Collection of Trade Accounts Receivable	6.0	29.9	15.0	10.0	18.0	35.9	30.6	25.6	25.6	24.1	29.1	24.1	28.9	302.6
Collection of Other Accounts Receivable	0.4	1.9	0.6	0.6	3.1	1.5	1.1	1.1	6.8	1.1	1.1	1.1	2.4	23.1
<b>Total Receipts - Operating</b>	<b>6.4</b>	<b>31.9</b>	<b>15.6</b>	<b>10.6</b>	<b>21.1</b>	<b>37.4</b>	<b>31.7</b>	<b>26.7</b>	<b>32.4</b>	<b>25.2</b>	<b>30.2</b>	<b>25.2</b>	<b>31.3</b>	<b>325.7</b>
<b>Disbursements - Operating</b>														
Raw Material and Freight Costs	(5.1)	(8.3)	(8.3)	(8.3)	(7.7)	(18.0)	(12.9)	(12.9)	(12.9)	(8.9)	(8.9)	(8.9)	(10.6)	(131.4)
Production and Operating Costs	(6.9)	(9.4)	(7.8)	(8.1)	(5.6)	(13.1)	(8.7)	(21.3)	(8.7)	(8.2)	(9.5)	(20.4)	(8.8)	(136.7)
Employee Costs	(2.7)	(2.5)	(5.4)	(2.6)	(2.3)	(4.8)	(5.7)	(2.1)	(5.7)	(2.1)	(5.1)	(3.0)	(8.3)	(52.1)
Property Tax/Insurance/Other Taxes	(0.0)	(0.2)	(0.1)	(0.1)	(0.1)	(0.0)	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	(0.5)
<b>Total Disbursements - Operating</b>	<b>(14.8)</b>	<b>(20.3)</b>	<b>(21.5)</b>	<b>(19.0)</b>	<b>(15.8)</b>	<b>(36.0)</b>	<b>(27.1)</b>	<b>(36.3)</b>	<b>(27.2)</b>	<b>(19.2)</b>	<b>(23.5)</b>	<b>(32.3)</b>	<b>(27.7)</b>	<b>(320.7)</b>
<b>Net Operating Cash Flows</b>	<b>(8.4)</b>	<b>11.6</b>	<b>(5.9)</b>	<b>(8.4)</b>	<b>5.3</b>	<b>1.4</b>	<b>4.6</b>	<b>(9.6)</b>	<b>5.2</b>	<b>6.0</b>	<b>6.7</b>	<b>(7.1)</b>	<b>3.6</b>	<b>5.0</b>
<b>Disbursements - Non-Operating</b>														
Restructuring Professional Fees	0.0	0.0	(0.7)	0.0	(0.7)	0.0	(0.7)	0.0	(0.7)	0.0	(0.7)	0.0	(0.7)	(4.2)
CAA Restructuring Costs	(5.8)	(5.8)	(5.8)	(5.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(23.0)
DIP Interest & Loan Fees	(0.0)	(0.1)	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	0.0	0.0	0.0	(0.7)
Other Interest Income (Expenses)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Disbursements - Non-Operating</b>	<b>(5.8)</b>	<b>(5.8)</b>	<b>(6.5)</b>	<b>(5.8)</b>	<b>(0.7)</b>	<b>(0.1)</b>	<b>(0.7)</b>	<b>(0.1)</b>	<b>(0.7)</b>	<b>(0.3)</b>	<b>(0.7)</b>	<b>0.0</b>	<b>(0.7)</b>	<b>(27.9)</b>
<b>Net Receipts (Disbursements)</b>	<b>(14.2)</b>	<b>5.8</b>	<b>(12.4)</b>	<b>(14.2)</b>	<b>4.6</b>	<b>1.3</b>	<b>3.9</b>	<b>(9.6)</b>	<b>4.4</b>	<b>5.7</b>	<b>6.0</b>	<b>(7.1)</b>	<b>2.9</b>	<b>(22.9)</b>
<b>Book Cash Balance</b>														
Beginning Cash Balance	33.2	12.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Net Receipts (Disbursements)	(14.2)	5.8	(12.4)	(14.2)	4.6	1.3	3.9	(9.6)	4.4	5.7	6.0	(7.1)	2.9	(22.9)
Net Loan Borrowing (Repayment) in the Period	(6.4)	(13.4)	12.4	14.2	(4.6)	(1.3)	(3.9)	9.6	(4.4)	(5.7)	(6.0)	7.1	(2.9)	
<b>Ending Book Cash Balance</b>	<b>12.6</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>
<b>ABL Revolving Loan</b>														
ABL Loan Balance at Beginning of Period	81.0	74.6	42.7	27.1	16.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ABL Borrowing (Repayment) in the Period	(6.4)	(31.9)	(15.6)	(10.6)	(16.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>ABL Loan Balance at End of Period</b>	<b>74.6</b>	<b>42.7</b>	<b>27.1</b>	<b>16.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>DIP Revolving Loan</b>														
DIP Loan Balance at Beginning of Period	0.0	0.0	18.5	46.5	71.3	83.2	81.8	78.0	87.6	83.2	77.4	71.4	78.6	
DIP Borrowing (Repayment) in the Period	0.0	18.5	28.0	24.8	11.9	(1.3)	(3.9)	9.6	(4.4)	(5.7)	(6.0)	7.1	(2.9)	
<b>DIP Loan Balance at End of Period</b>	<b>0.0</b>	<b>18.5</b>	<b>46.5</b>	<b>71.3</b>	<b>83.2</b>	<b>81.8</b>	<b>78.0</b>	<b>87.6</b>	<b>83.2</b>	<b>77.4</b>	<b>71.4</b>	<b>78.6</b>	<b>75.7</b>	
<b>Unused DIP Loan <sup>1</sup></b>	<b>26.3</b>	<b>32.1</b>	<b>19.7</b>	<b>5.5</b>	<b>10.1</b>	<b>31.3</b>	<b>35.2</b>	<b>25.5</b>	<b>30.0</b>	<b>25.1</b>	<b>31.1</b>	<b>24.0</b>	<b>26.9</b>	

<sup>1</sup> - Unused DIP Loan is equal to Borrowing Base Availability > \$26.5M plus Ending Book Cash. If Borrowing Base Availability drops below \$26.5M, the Company loses control of cash to the DIP Lender per the DIP Loan Agreement.

## **APPENDIX C**

**Pro-forma cash flow forecast – critical suppliers on COD**

**Catalyst Paper Corporation et al.**  
**Proforma CCAA Cash Flow Forecast - Re: Critical Suppliers on COD Terms**

Period January 31, 2012 to April 30, 2012

In CAD\$ millions

Period #	1	2	3	4	5	6	7	8	9	10	11	12	13	90	Total
Calendar Days in Period	5-Feb	12-Feb	19-Feb	26-Feb	29-Feb	11-Mar	18-Mar	25-Mar	31-Mar	8-Apr	15-Apr	22-Apr	30-Apr		
<b>Receipts - Operating</b>															
Collection of Trade Accounts Receivable	6.0	29.9	15.0	10.0	18.0	35.9	30.6	25.6	25.6	24.1	29.1	24.1	28.9	302.6	
Collection of Other Accounts Receivable	0.4	1.9	0.6	0.6	3.1	1.5	1.1	1.1	6.8	1.1	1.1	1.1	2.4	23.1	
<b>Total Receipts - Operating</b>	<b>6.4</b>	<b>31.9</b>	<b>15.6</b>	<b>10.6</b>	<b>21.1</b>	<b>37.4</b>	<b>31.7</b>	<b>26.7</b>	<b>32.4</b>	<b>25.2</b>	<b>30.2</b>	<b>25.2</b>	<b>31.3</b>	<b>325.7</b>	
<b>Disbursements - Operating</b>															
Raw Material and Freight Costs	(5.1)	(19.7)	(8.3)	(8.3)	(7.7)	(18.0)	(12.9)	(12.9)	(12.9)	(8.9)	(8.9)	(8.9)	(10.6)	(142.9)	
Production and Operating Costs	(6.9)	(9.4)	(7.8)	(8.1)	(5.6)	(13.1)	(8.7)	(21.3)	(8.7)	(8.2)	(9.5)	(20.4)	(8.8)	(136.7)	
Employee Costs	(2.7)	(2.5)	(5.4)	(2.6)	(2.3)	(4.8)	(5.5)	(2.1)	(5.7)	(2.1)	(5.1)	(3.0)	(8.3)	(52.1)	
Property Tax/Insurance/Other Taxes	(0.0)	(0.2)	(0.1)	(0.1)	(0.1)	(0.0)	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	(0.5)	
<b>Total Disbursements - Operating</b>	<b>(14.8)</b>	<b>(31.8)</b>	<b>(21.5)</b>	<b>(19.0)</b>	<b>(15.8)</b>	<b>(36.0)</b>	<b>(27.1)</b>	<b>(36.3)</b>	<b>(27.2)</b>	<b>(19.2)</b>	<b>(23.5)</b>	<b>(32.3)</b>	<b>(27.7)</b>	<b>(332.2)</b>	
<b>Net Operating Cash Flows</b>	<b>(8.4)</b>	<b>0.1</b>	<b>(5.9)</b>	<b>(8.4)</b>	<b>5.3</b>	<b>1.4</b>	<b>4.6</b>	<b>(9.6)</b>	<b>5.2</b>	<b>6.0</b>	<b>6.7</b>	<b>(7.1)</b>	<b>3.6</b>	<b>(6.4)</b>	
<b>Disbursements - Non-Operating</b>															
Restructuring Professional Fees	0.0	0.0	(0.7)	0.0	(0.7)	0.0	(0.7)	0.0	(0.7)	0.0	(0.7)	0.0	(0.7)	(4.2)	
CCAA Restructuring Costs	(5.8)	(5.8)	(5.8)	(5.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(23.0)	
DIP Interest & Loan Fees	(0.0)	(0.1)	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	0.0	0.0	0.0	(0.7)	
Other Interest Income (Expenses)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Total Disbursements - Non-Operating</b>	<b>(5.8)</b>	<b>(5.8)</b>	<b>(6.5)</b>	<b>(5.8)</b>	<b>(0.7)</b>	<b>(0.1)</b>	<b>(0.7)</b>	<b>(0.1)</b>	<b>(0.7)</b>	<b>(0.3)</b>	<b>(0.7)</b>	<b>0.0</b>	<b>(0.7)</b>	<b>(27.9)</b>	
<b>Net Receipts (Disbursements)</b>	<b>(14.2)</b>	<b>(5.7)</b>	<b>(12.4)</b>	<b>(14.2)</b>	<b>4.6</b>	<b>1.3</b>	<b>3.9</b>	<b>(9.6)</b>	<b>4.4</b>	<b>5.7</b>	<b>6.0</b>	<b>(7.1)</b>	<b>2.9</b>	<b>(34.3)</b>	
<b>Book Cash Balance</b>															
Beginning Cash Balance	33.2	12.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	
Net Receipts (Disbursements)	(14.2)	(5.7)	(12.4)	(14.2)	4.6	1.3	3.9	(9.6)	4.4	5.7	6.0	(7.1)	2.9		
Net Loan Borrowing (Repayment) in the Period	(6.4)	(1.9)	12.4	14.2	(4.6)	(1.3)	(3.9)	9.6	(4.4)	(5.7)	(6.0)	7.1	(2.9)		
<b>Ending Book Cash Balance</b>	<b>12.6</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	
<b>ABL Revolving Loan</b>															
ABL Loan Balance at Beginning of Period	81.0	74.6	42.7	27.1	16.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
ABL Borrowing (Repayment) in the Period	(6.4)	(31.9)	(15.6)	(10.6)	(16.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>ABL Loan Balance at End of Period</b>	<b>74.6</b>	<b>42.7</b>	<b>27.1</b>	<b>16.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
<b>DIP Revolving Loan</b>															
DIP Loan Balance at Beginning of Period	0.0	0.0	30.0	58.0	82.8	94.7	93.3	89.4	99.1	94.6	88.9	82.9	90.1		
DIP Borrowing (Repayment) in the Period	0.0	30.0	28.0	24.8	11.9	(1.3)	(3.9)	9.6	(4.4)	(5.7)	(6.0)	7.1	(2.9)		
<b>DIP Loan Balance at End of Period</b>	<b>0.0</b>	<b>30.0</b>	<b>58.0</b>	<b>82.8</b>	<b>94.7</b>	<b>93.3</b>	<b>89.4</b>	<b>99.1</b>	<b>94.6</b>	<b>88.9</b>	<b>82.9</b>	<b>90.1</b>	<b>87.2</b>		
<b>Unused DIP Loan <sup>1</sup></b>	26.3	20.6	8.2	(5.9)	(1.3)	19.8	23.7	14.1	18.5	13.6	19.6	12.5	15.4		

<sup>1</sup> - Unused DIP Loan is equal to Borrowing Base Availability > \$26.5M plus Ending Book Cash. If Borrowing Base Availability drops below \$26.5M, the Company loses control of cash to the DIP Lender per the DIP Loan Agreement.