

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*  
S.B.C., 2002, CHAPTER 57**

**AND**

**IN THE MATTER OF CATALYST PAPER CORPORATION AND THE  
PETITIONERS INCLUDED IN APPENDIX "A"**

**MONITOR'S FIFTH REPORT TO COURT  
[Prepared for the March 21, 2012 Court Hearing]**

**March 19, 2012**



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# CATALYST PAPER CORPORATION, ET AL MONITOR'S FIFTH 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 a hearing to consider an extension of the proceedings pursuant to the CCAA (the "**Comeback Hearing**"). At the Comeback Hearing, the stay of proceedings was extended to April 30, 2012.
- 1.3 The Monitor has produced four reports to date, as well as a pre-filing report. The purpose of this, the Monitor's Fifth Report to Court, is to advise the Court with respect to the following matters to be addressed at the hearing scheduled for March 21, 2012:
  - 1.3.1 The proposed plan of compromise and arrangement (the "**Plan**");
  - 1.3.2 The proposed Meetings Order, SISP Order, and Claims Procedure Order (as hereinafter defined); and
  - 1.3.3 The Monitor's views on and recommendations with respect to the foregoing.
- 1.4 Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars. Capitalized terms not otherwise defined herein are as defined in the Company's Plan and other application materials, including Affidavit #6 of Brian Baarda sworn on March 15, 2012 (the "**Baarda Affidavit**").

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## 2. BACKGROUND

- 2.1 The facts surrounding the Company's application for the Initial Order were set out in the Petition filed by Catalyst on January 31, 2012, a copy of which can be found on the Monitor's website at:

[www.pwc.com/car-catalystpaper](http://www.pwc.com/car-catalystpaper)

All prescribed materials filed by Catalyst and the Monitor relating to this CCAA proceeding are available to creditors and other interested parties in electronic format on the Monitor's website. The Monitor will continue to post regular updates to the website and will add prescribed and other materials as required.

- 2.2 The Company has also made applications to the United States Bankruptcy Court for the District of Delaware (the "**US Court**") for provisional relief pursuant to Chapter 15 of the US Bankruptcy Code. On March 5, 2012, the US Court made a final order granting recognition of these proceedings as a foreign main proceeding pursuant to Chapter 15 of the US Bankruptcy Code. The Monitor's website also contains materials relating to the proceedings in the US Court.

## 3. PROPOSED PLAN OF ARRANGEMENT

- 3.1 In its application for the Meetings Order (defined below at paragraph 6.1), the Company is seeking the Court's approval of the Plan for filing and authorization for the Company to present the Plan to its creditors for consideration.
- 3.2 The Plan incorporates and, if approved by creditors and the Court, would implement the terms of a restructuring and support agreement dated March 11, 2012 (the "**Revised RSA**") negotiated between the Company and certain First Lien Noteholders and certain Unsecured Noteholders (collectively, the "**Initial Supporting Noteholders**"). The background to the restructuring negotiations between the Company and the Initial Supporting Noteholders is outlined in the Baarda Affidavit. In summary:

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- 3.2.1 The Company entered into a term sheet and restructuring and support agreement (the “**Initial RSA**”) in early January 2012, and on January 17, 2012, the Company sought and obtained an Order under the Canada Business Corporations Act (“**CBCA**”) to initiate the process of implementing the restructuring contemplated by the Initial RSA.
  - 3.2.2 Certain conditions to the implementation of the restructuring contemplated by the Initial RSA were not satisfied by January 31, 2012 as required, and on that date the Company initiated these CCAA Proceedings to allow it to continue pursuing a restructuring of the Company.
  - 3.2.3 The Monitor is aware that restructuring discussions with certain of the Initial Supporting Noteholders have continued since the outset of the CCAA Proceedings. These culminated in the successful negotiation of the Revised RSA, which contemplates a recapitalization transaction to be implemented through the Plan.
  - 3.2.4 In parallel, and as a condition of the Revised RSA, the Company has negotiated the terms of a sale and investor solicitation plan (the “**SISP**”) which is to be implemented if the requisite statutory thresholds of support for approval of the Plan are not obtained by April 23, 2012, or if the Plan is not sanctioned by the Court on or before April 25, 2012. The key terms of the SISP are discussed later in this report.
- 3.3 Generally, the Plan would effect a recapitalization of the 2016 Notes and 2014 Notes and a compromise of all other unsecured pre-filing claims (except for the Unaffected Claims), as well as the cancellation of all existing equity interests in the Company. A summary of the key elements of the Plan is set out below. A management proxy circular (the “**Information Circular**”) has been prepared by the Company, which explains in detail, among other things, the voting process in respect of the Plan and the transactions and compromises to be effected under the Plan. A copy of the Information Circular is attached to the draft Meetings Order.

## *Consolidated Plan*

- 3.4 The Plan has been prepared on a substantively consolidated basis, such that the claims against the estates of each of the Catalyst entities are treated as claims against all entities. As a result, Affected Creditors under the Plan (described further below) will have one consolidated Claim for voting and distribution purposes in an amount equal to the sum of all of their respective separate (but not duplicative) claims against each of the Catalyst entities.

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## *Creditor classes*

- 3.5 There are two classes of Affected Creditors under the Plan:
- 3.5.1 The First Lien Notes Claims Class, comprising the First Lien Noteholders having Claims totalling approximately US\$390.4 million in principal, plus accrued and unpaid interest estimated at US\$45.4 million if the Effective Date under the Plan is May 31, 2012, for a total estimated claim of US\$435.8 million; and
  - 3.5.2 The Unsecured Claims Class, consisting of:
    - 3.5.2.1 the Unsecured Noteholders (for the 7.375% Senior Notes due March 1, 2014), having Claims in the principal amount of US\$250.0 million, plus accrued and unpaid interest estimated at US\$14.0 million if the Effective Date under the Plan is May 31, 2012, for a total estimated claim of US\$264.0 million; and
    - 3.5.2.2 General Unsecured Creditors, being the holders of all pre-Commencement Date, unsecured, non-priority Claims against the Company. The amount of the General Unsecured Claims is to be determined as part of the Claims Procedure, discussed later in this report.
- 3.6 The Plan provides that holders of General Unsecured Claims equal to or less than \$10,000 shall be considered Convenience Creditors for purposes of distributions under the Plan.
- 3.7 General Unsecured Creditors holding Allowed Claims in excess of \$10,000 may elect to reduce their Allowed Claim to \$10,000 by making a Cash Election with the Monitor, in which case they (the "**Cash Election Creditors**" and collectively with the Convenience Creditors, the "**General Unsecured Cash Creditors**") shall receive the same distribution under the Plan as Convenience Creditors.
- 3.8 The Affected Claims under the Plan consist of:
- 3.8.1 Claims that arose prior to the CCAA proceedings (defined in the Plan as "Pre-Commencement Claims"), which according to the Company's books and records are estimated to total in excess of \$60 million;

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- 3.8.2 Claims arising out of the restructuring, disclaimer, termination, or breach of any contract or agreement with the Company after the commencement of the CCAA proceedings (defined in the Plan as "Restructuring Claims"), and
  - 3.8.3 Claims for which the directors or officers of the Company may be liable in such capacity (defined in the Plan as the "Directors/Officers Claims").
- 3.9 The Plan does not affect or compromise the claims and rights of Unaffected Creditors. No Creditor holding an Unaffected Claim shall be entitled to vote on the Plan or receive any distributions thereon. The Unaffected Claims include, among others, the following:
- 3.9.1 Post-filing creditors;
  - 3.9.2 Claims secured by the CCAA Charges;
  - 3.9.3 Any part of a Claim arising from a cause of action for which the Company is covered by insurance, but only to the extent of such coverage;
  - 3.9.4 Any Claim of employees of the Company employed by them as of the date of the Initial Order, but only in respect of claims for wages, including vacation pay and banked time; and
  - 3.9.5 Any Claim secured by a Lien other than the First Lien Notes Claims.

*Consideration available for distribution*

- 3.10 The Plan provides the following consideration to be distributed to the Affected Creditors:
  - 3.10.1 New First Lien Notes, in the principal sum of US\$325.0 million, with security consisting of all collateral currently securing the First Lien Notes plus such additional security over the Excluded Assets as may be reasonably required by the holders of the New First Lien Notes. These notes shall bear interest at 11% per annum, payable in cash in arrears, or (at the Company's option) 7.5% payable in cash plus 5.5% in-kind. These notes shall mature at the earlier of six months after the end date of the New Labour Contracts and December 16, 2017, but the Final Maturity will never be earlier than December 16, 2016;

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- 3.10.2 New First Lien Coupon Notes, in the principal sum equal to the accrued and unpaid interest owing in respect of the First Lien Notes as at the Effective Date, sharing the same security as the New First Lien Notes. No interest is payable on these notes, and they are to be paid in whole or in part in a number of different circumstances as described in the Information Circular. These notes have the same maturity date as the New First Lien Notes, if they have not already been redeemed before that time;
- 3.10.3 New Common Shares, totalling up to 15,000,000, to be issued on the Effective Date, subject to dilution only from New Common Shares granted to holders of the Warrants (see below), and any Management Incentive Plan;
- 3.10.4 Warrants, which shall be exercisable for 15% of the fully diluted New Common Shares as of the Effective Date of the Plan with a cashless exercise feature, at a strike price equal to \$111,750,000 in total for all Warrants. According to their terms, the Warrants will expire in various circumstances, and at most four years from the Effective Date; and
- 3.10.5 Cash for General Unsecured Cash Creditors, as described below.

*Distribution of the Consideration to Affected Creditors*

- 3.11 First Lien Noteholders holding Allowed Claims shall receive their pro rata share of the New First Lien Notes, the New First Lien Coupon Notes, and a total of 12,000,000 New Common Shares representing 80% of the equity of the Company (subject to dilution by any subsequent exercise of the Warrants and any management incentive plan).
- 3.12 Unsecured Noteholders and General Unsecured Creditors holding Allowed Claims, other than General Unsecured Cash Creditors, shall receive their pro rata share of a total of 3,000,000 New Common Shares representing 20% of the equity of the Company (subject to dilution by any exercise of the Warrants and any management incentive plan) and the Warrants.
- 3.13 General Unsecured Cash Creditors shall receive:
  - 3.13.1 Cash in an amount equal to 50% of such Creditor's Allowed Claim (the "**Convenience Cash Amount**"), subject to a maximum of \$2.5 million payable for all Convenience Creditors (the "**Maximum Convenience Claims Pool**"); or

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- 3.13.2 To the extent that the aggregate of all Convenience Cash Amounts would exceed the Maximum Convenience Claims Pool:
- 3.13.2.1 such holder's pro rata share of the Maximum Convenience Claims Pool; and
  - 3.13.2.2 for the balance of their Convenience Claim (calculated based on the amount of such holder's Affected Claim less 2 times the amount received by such holder from the Maximum Convenience Claims Pool), such holder's pro rata share of the New Common Shares and Warrants otherwise allocable to General Unsecured Creditors.
- 3.14 General Unsecured Creditors holding Allowed Claims in excess of \$10,000 may elect to reduce their Allowed Claim to \$10,000 by making a Cash Election with the Monitor, in which case they shall receive the same distribution under the Plan as Convenience Creditors.
- 3.15 Convenience Creditors that wish to receive a distribution of New Common Shares and Warrants for the value of their claim rather than cash may elect to do so by filing a Convenience Share Election with the Monitor.
- 3.16 The Plan provides in section 3.2 that, *inter alia*:
- "New Common Shares that would otherwise have been allocable to General Unsecured Cash Creditors shall not be issued under the Plan. Such non-issuance will result in an adjustment to the number of New Common Shares to be issued and the percentage distribution to Creditors set forth in this Section 3.2."*
- The Monitor notes that this would have the effect of changing the ownership percentages post-emergence as between the First Lien Notes Claims Class and the Unsecured Claims Class. If these shares were not distributed to other creditors as this paragraph suggests, the total New Common Shares distributed to the Unsecured Class would be less than 20% of the total New Common Shares.
- 3.17 The Monitor notes that under the terms of the Plan as described above, General Unsecured Cash Creditors will be paid 50% of their Allowed Claims only if the aggregate of the Convenience Claims (including the Allowed Claims of General Unsecured Creditors who file Cash Elections) is \$5.0 million or less.

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*Summary of distributions*

3.18 The table below summarizes the proposed distributions under the Plan:

<b>Class</b>	<b>Estimated claims</b>	<b>Plan Distribution</b>	<b>Plan value of Distribution</b>	<b>Total Plan value</b>
(1) First Lien Notes Claims Class	US\$390.4 million in principal, plus estimated accrued and unpaid interest on First Lien Notes of US\$45.4 million	New First Lien Notes	US\$325.0 million	US\$430.0 million
		New First Lien Coupon Notes	US\$45.4 million (see note 1)	
		80% of New Common Shares	US\$59.6 million (see note 2)	
<b>(2) Unsecured Claims Class</b>				
(a) Unsecured Noteholders and General Unsecured Share Creditors	Unsecured Noteholders: US\$250.0 million plus estimated accrued and unpaid interest of US\$14.0 million  General Unsecured Creditors (in total): C\$60 million, not including Restructuring & Director/Officer claims	20% of New Common Shares	US\$14.9 million (see note 2)	US\$14.9 million plus intrinsic value (if any) of Warrants
		Warrants	Out of the money on emergence, but may have intrinsic value	
(b) General Unsecured Cash Creditors	Convenience Claims estimated at \$2.1 million (included in balance of General Unsecured Claims). Cash Election Creditors still to be determined.	Cash (and New Common Shares/Warrants if Maximum Convenience Cash Pool limit is exceeded)	C\$2.5 million	C\$2.5 million
Note 1: Represents the sum of accrued and unpaid interest on First Lien Notes, estimated based on an Effective Date of May 31, 2012				
Note 2: The Plan value for the New Common Shares is defined in the Plan as US\$74.5 million.				

3.19 The Monitor notes that the value of the New Common Shares noted above is the Plan Equity Value stated in the Plan. This is an implied value based on the proposed terms

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of the Plan, The Monitor notes that the value, if any, of the New Common Shares post-emergence is unknown.

## *Other key terms*

- 3.20 The Plan contemplates that, if necessary, the Company's DIP Facility will be refinanced and the Company will enter into a new asset-based lending facility as of the Effective Date of the Plan.
- 3.21 On the effective date of the Plan, the initial board of directors of the Company as reorganized shall be composed of five members designated by the Majority Initial Supporting Noteholders, one member designated by the Initial Supporting Unsecured Noteholders, and the chief executive officer of the Company.
- 3.22 The Plan includes a range of conditions precedent to implementation. These conditions must be satisfied within 21 days of the sanction of the Plan by the Court, or in the alternative can be waived by the Debtors with the consent of the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders. The Monitor makes the following observations with respect to certain of those conditions:
- 3.22.1 The Plan is conditioned on the ratification of new labour contracts by the CEP and PPWC unions representing hourly workers at the Company's mills in British Columbia. As of the date of this report the Monitor is informed that new agreements have been reached with both unions; and
- 3.22.2 The Plan requires an Order modifying the provisions of the KERP previously approved by the Court, and the release of the letters of credit that previously secured the KERP. The Monitor is informed that by virtue of a previous Order of this Court that created the KERP Charge, the letters of credit are anticipated to be released by the end of March.
- 3.23 The Plan provides for the release of certain Released Parties from all claims relating to (among other things) the Plan, the Revised RSA, and the prior CBCA proceedings. The Released Parties include the directors, officers, employees, and legal and financial advisors of the Company and the directors; certain of the First Lien Noteholders and the Unsecured Noteholders, their indenture trustees, and their respective legal advisors; and the Monitor and its legal advisors.

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## 4. SALE AND INVESTOR SOLICITATION PROCESS (“SISP”)

- 4.1 Concurrently with the filing of the Plan, and pursuant to the terms of the RSA, the Company is seeking an Order of the Court (the “**SISP Order**”) approving the SISP and its immediate implementation in the event that the Plan is not sanctioned by the Court on or before April 25, 2012 (such event is referred to as a “**Plan Failure**”).
- 4.2 A copy of the SISP is attached to the draft SISP Order, and its key terms are summarized in the Baarda Affidavit. The key events and deadlines included in the SISP are summarized below:

<u>Days after Plan Failure</u>	<u>Action</u>
2 Business Days	Teaser Letter and Confidentiality Agreement sent to Known Potential Bidders
5 Business Days	Notice of SISP published in newspapers
14 Days	Potential Bidder Deadline for submission of certain limited information and an executed Confidentiality Agreement
19 Days	Deadline to identify which Potential bidders are Qualified Phase 1 Bidders
19-44 Days	Due diligence period for Qualified Phase 1 Bidders
49 Days (35 days after Potential Bidder Deadline)	Phase 1 Bid Deadline: Non-Binding Indications of Interest to be submitted
53 Days	Assessment of Phase 1 Bids and selection of Qualified Phase 2 Bidders
70 Days (21 days after Phase 1 Bid Deadline)	Phase 2 Bid Deadline: Binding Qualified Purchase Bids and/or Qualified Investment Bids to be submitted
73 Days	Auction

- 4.3 The proposed SISP Order authorizes the Company to enter into a purchase agreement with a Stalking Horse Bidder. The Monitor understands that an entity controlled by the Initial Supporting First Lien Noteholders will be the Stalking Horse Bidder, and the consideration offered is expected to include a credit bid of some or all of the 2016 Notes. As of the date of this Report, a draft form of asset sale agreement to be used by the Stalking Horse Bidder (the “**Stalking Horse Purchase Agreement**”) has been prepared but is not substantially complete. The proposed SISP Order also provides for

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a charge (the “**Stalking Horse Expense Reimbursement Charge**”) to be granted over the Company’s assets as security for payment of the professional fees and expenses incurred by the Stalking Horse Bidder in respect of the development of the Stalking Horse Purchase Agreement and participation in the SISP.

- 4.4 In the event of Plan Failure, the likely alternative is a sale of the Company’s assets. The SISP provides a process for determining whether a third party is prepared to pay more for the Company’s assets and business than the consideration to be offered by the Stalking Horse Bidder under the Stalking Horse Purchase Agreement.
- 4.5 The terms of the SISP provide that the process can be terminated under certain circumstances. For the most part, these termination provisions are triggered if the process does not result in any qualified bidders expressing an interest in purchasing or investing in the Company, or if no qualified bids are received which have a reasonable prospect of being consummated or result in a superior offer to the Stalking Horse Purchase Agreement. The Monitor considers that it is appropriate to include such termination provisions in order to prevent delay in selling the Company to the Stalking Horse Bidder in the event no reasonable offers are made to purchase or invest in the Company.
- 4.6 The timetable under the SISP contemplates that if Plan Failure occurs and the SISP is commenced promptly thereafter, it may be possible to close a transaction in July 2012. Among other things, the Monitor understands from the Company that this timing is important to permit the Company to be on a more stable footing heading into its busier sales period in the third and fourth quarters of the year.

## **5. MONITOR’S VIEWS ON THE PROPOSED PLAN AND SISP**

- 5.1 The Plan reflects a consensual agreement among the Company, certain of the 2016 Noteholders, and certain of the 2014 Noteholders, with respect to an overall financial restructuring. Among other things, it provides for a material reduction in the total indebtedness of the Company through the partial compromise of the claims of the 2016 Noteholders and the full compromise of the 2014 Noteholders and General Unsecured Creditors. The Monitor recognizes that considerable effort and thought has been put into the Plan by the Company and some of its major stakeholders in an attempt to develop a plan of arrangement that might be acceptable to them and the requisite majorities of the classes of creditors.

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- 5.2 Given that the Plan has the support of the Company and the Initial Supporting Noteholders, who represent a significant portion of the Company's financial stakeholders, the Monitor considers that it is appropriate for the wider group of creditors of the Company to consider the Plan and express their views on it through votes at the Meetings of the Company's Affected Creditors.
- 5.3 While the Monitor is supportive of the filing of the Plan and related materials by the Company, the Monitor is still considering the fairness and reasonableness of the Plan, and will report further to this Court and the creditors prior to the scheduled Meetings. The Monitor anticipates it will file such a report in early April, and will post a copy of its report on its website at [www.pwc.com/car-catalystpaper](http://www.pwc.com/car-catalystpaper).
- 5.4 The Monitor is currently considering a number of matters with respect to the Plan, which it has discussed with the Company and the Initial Supporting Noteholders. These include matters identified in the draft Information Circular with respect to the Company's long-term indebtedness on emergence from CCAA protection and its liquidity, as well as the anticipated recovery for Unsecured Creditors under the Plan. The Monitor will continue its discussions relating to the Plan with the Company and its financial advisor before filing its next report as to the Monitor's views on the fairness and reasonableness of the Plan.
- 5.5 The Company is also seeking this Court's approval of the SISP, which is to be implemented in the event of Plan Failure. To date, no sales process has been conducted to determine whether there are other parties interested in purchasing some or all of the Company's assets, or making an investment in the Company. The SISP provides a reasonable process for the marketing of the Company in order to obtain the maximum value for its assets or a favourable investment in its business. The Monitor notes that there is no assurance that any offers that might be made as part of the SISP, including the Stalking Horse Bid, would yield any incremental benefit for the Affected Creditors compared to the consideration offered under the Plan.
- 5.6 The Monitor is of the view that the process and timetable outlined in the SISP is reasonable in the circumstances, and that it is desirable to have this alternative approved at this time so that the Company is in a position to immediately implement this alternative process in the event of Plan Failure.

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- 5.7 The Monitor is not in a position to recommend the approval of the Stalking Horse Purchase Agreement because, as at the date of this Report, the form of agreement is still undergoing significant revision. Once the agreement has been finalized, the Monitor will provide its comments on the terms of the Stalking Horse Purchase Agreement and its views on whether it is appropriate for the Court to approve the agreement. In the interim, the Monitor is of the view that the Court should defer granting those terms of the SISP Order sought by the Company which pertain to the Stalking Horse Purchase Agreement.
- 5.8 Given the progress that has been made to date towards the development of the SISP and the Stalking Horse Purchase Agreement with the planned Stalking Horse Bidder, the Monitor is not opposed to a potential Stalking Horse Expense Reimbursement as may be agreed between the bidder and the Company. In the absence of a finalized Stalking Horse Purchase Agreement or an agreement on the quantum and terms for a Stalking Horse Expense Reimbursement, the Monitor cannot comment on the appropriateness of the Stalking Horse Expense Reimbursement Charge. The Monitor will provide its comments on this once the related agreements have been finalized..

**6. PROPOSED CLAIMS PROCEDURE ORDER AND MEETINGS ORDER**

- 6.1 The Company is seeking an Order (the “**Claims Procedure Order**”) to establish a process (the “**Claims Procedure**”) for determining the claims of the Company’s creditors. The Company is also seeking an Order (the “**Meetings Order**”) to establish procedures for soliciting votes from Affected Creditors in respect of the Plan and convening and conducting the Meetings to vote on the Plan.
- 6.2 A summary of the timelines set out by the Claims Procedure Order and the Meetings Order is shown below:

<u>Date (all 2012)</u>	<u>Description</u>
March 21	Claims Procedure Order and Meetings Order granted.
By March 23	Claims Packages and Information Packages posted to website
By March 26	Claims Package and Information Package to be sent to creditors
By March 27	Notices of the Creditor Meetings to be published
March 27	The Unsecured Notes Claim Voting Amount and the First Lien Notes Claim Voting Amount to be sent to the trustees of the respective notes for confirmation. The trustee is expected to respond by April 10.

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<b>April 18</b>	<b>Claims Bar Date for General Unsecured Creditors by the Monitor – 5:00pm Pacific Time</b>
<b>April 20</b>	<b>Deadline for receipt of proxies as follows:</b> <b>- General Unsecured Creditors: by the Monitor by 1:00pm Pacific Time</b> <b>- First Lien Noteholders and Unsecured Noteholders: by the Solicitation Agent by 4:00pm Eastern Time</b>
April 23	Meetings of Creditors: - Unsecured Creditors Meeting (10:00am); - First Lien Noteholders Meeting (11:00am)
April 24	Monitor's report on Meetings to be completed and filed. Any opposition to the Sanction Hearing must be served with supporting materials
April 25	Sanction Hearing

- 6.3 As soon as practicable after the granting of the Claims Procedure Order and the Meetings Order, the Monitor shall post the following materials on its website:
- 6.3.1 A Claims Package, including an Instruction letter and a blank Proof of Claim; and
  - 6.3.2 An Information Package, including the Company's Information Circular (to which the Plan is appended), the Notice of Meetings, forms of proxy, a Cash Election Form and a Convenience Share Election Form.
- 6.4 The Claims Procedure Order and Meetings Order set out different requirements for the mailing of the Information Package and Claims Package by the Monitor, as well as the filing of Proofs of Claim and voting by creditors at the Meetings, depending on whether a creditor is a First Lien Noteholder, an Unsecured Noteholder, or a General Unsecured Creditor. These provisions are summarized in the table attached as Appendix B.
- 6.5 The Monitor anticipates that the Information Package and Claims Package will be sent as required on or before March 26, 2012.
- 6.6 A Claim Amount Notice may also be included in a Claims Package sent to a creditor. This notice would set out the Company's determination of that creditor's Allowed Claim. If such creditor does not dispute the nature or amount of the Allowed Claim in the Claims Amount Notice, they are not required to file a Proof of Claim. However, creditors receiving a Claim Amount Notice still need to submit a proxy or attend in person at the Unsecured Class Meeting to vote on the Plan. The Monitor notes that not all creditors will receive Claim Amount Notices.

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- 6.7 Notice of the Claims Procedure and notice of the Meetings will also be published in the National Post, the Vancouver Sun, the Victoria Times Colonist and the Wall Street Journal.
- 6.8 Under the Claims Procedure Order, the Claims Bar Date for General Unsecured Creditors is 5:00pm Pacific Time on April 18, 2012. Proofs of Claim must be filed in accordance with the terms of the Claims Procedure Order to be received by the Monitor on or before the Claims Bar Date. General Unsecured Creditors who do not file a Proof of Claim by the Claims Bar Date will, *inter alia*, not be permitted to vote on the Plan or participate in any distribution under the Plan on account of such Claim.
- 6.9 The Monitor will receive claims submitted by the General Unsecured Creditors and assist the Company with the review of claims. The Company or the Monitor will issue any Notices of Revision or Disallowance no later than ten days after the Claims Bar Date. Procedures for resolving Disputed Claims are contained in the Claims Procedure Order. Pursuant to the Meetings Order holders of Disputed Claims shall be entitled to vote the full amount of their Disputed Claims, and the Monitor will record and report separately as to how all Disputed Claims were voted.
- 6.10 The Claims Procedure Order includes alternate procedures for First Lien Noteholders and Unsecured Noteholders. In summary, these Creditors are not required to file Proofs of Claim with the Monitor, and the Company and the indenture trustees for each of the First Lien Notes and the Unsecured Notes will coordinate to confirm the voting and distribution amounts of the claims of these creditors.
- 6.11 The proposed Meetings Order authorizes the Company to conduct Meetings to vote on the Plan on April 23, 2012 at the Delta Vancouver Airport Hotel, 3500 Cessna Drive, Vancouver, B.C. The Unsecured Creditors Meeting is to take place at 10:00am, and the meeting of the First Lien Noteholders Meeting is to take place at 11:00am. Creditors in the respective classes may either vote in person at the Meetings, or, in advance of the Meetings, submit a completed proxy in the form contained in the Information Package.
- 6.12 In order for the Plan to be accepted by the Affected Creditors, the Affected Creditors in each of the Voting Classes representing a majority in number and two-third in value of the Affected Creditors voting must vote in favour of the Plan. This is subject to the vote deeming provisions discussed below.

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- 6.13 The Meetings Order provides that if the Plan is approved by the requisite majorities of Affected Creditors at each of the Meetings, the Company shall seek this Court's approval of the Plan by way of an Order (the "**Sanction Order**") at a hearing (the "**Sanction Hearing**") to be scheduled on April 25, 2012. The Monitor will report to the Court in connection with the Sanction Hearing as to, *inter alia*, the results of the votes at the Meetings and any other matter which the Monitor considers relevant in regards to the Sanction Order.

*Vote deeming provisions*

- 6.14 The Meetings Order provides that any Convenience Creditor who makes a Convenience Share Election, or any General Unsecured Creditor who makes a Cash Election, shall be deemed to vote in favour of the Plan. The Monitor is not opposed to these provisions, but wishes to ensure that Affected Creditors choosing to make either of these elections are aware of this implication.
- 6.15 The Plan and the Meetings Order contain provisions indicating that, in the event the Plan is not approved by the requisite majorities of Affected Creditors of each of the Voting Classes, the Company may apply for an order that non-voting Unsecured Creditors be deemed to have voted in favour of the Plan at the Unsecured Creditors Meeting. This is illustrated in the draft Meetings Order at paragraph 55, which reads as follows:

*"[t]he Company shall, if directed by the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Noteholders, bring an application, if necessary, for an Order that any General Unsecured Creditor that is not a Convenience Share Election Creditor or a Cash Election Creditor and any Unsecured Noteholder, who does not vote in person or by proxy, shall be deemed to vote in favour of the resolution...to approve the Plan to the extent of his or her or its Allowed Claim..."*

- 6.16 The Monitor wishes to highlight to Affected Creditors holding Unsecured Claims that unless they vote their Allowed Claim, in person or by proxy, at the Meetings, this provision of the Meetings Order would permit the Company to seek a further Order that would have the effect of deeming their Allowed Claim to be voted in favour of the Plan, regardless of that Affected Creditor's views on the Plan.

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- 6.17 The Monitor may have concerns with the granting of an Order as contemplated by paragraph 55 of the draft Meetings Order to deem certain non-voting creditors to have voted in favour of the Plan, and is not aware of any precedent for such an Order. However, the Monitor recognizes that this provision would only need to be applied in certain situations following the vote by Creditors, and will address this matter further as and when an application under this section is made.

## *Potential impact of Claims Procedure and Meeting Date on tabulation of vote*

- 6.18 The short time frame between the Claims Bar Date and the Meetings may give rise to concerns in relation to the tabulation of the votes at the Meetings, as set out below. Depending on how the Claims Procedure unfolds and the Monitor's views as to whether the shortened timeframe is likely to have any prejudicial effect on the voting process, the Monitor may seek further advice and directions of the Court, including an Order that the Meetings and/or the Sanction Hearing be adjourned to a later date.
- 6.19 The timetable for the Claims Procedure and the Meetings is a function of the terms of the Revised RSA, which *inter alia*, requires the Plan vote to occur on April 23, 2012 and the sanction of the Plan by April 25, 2012. Any delays in the holding of the Meetings or the Sanction Hearing, if not waived by the parties to the Revised RSA, could result in the termination of the Revised RSA and the failure of the restructuring contemplated thereby.
- 6.20 This timetable has two potentially significant implications:
- 6.20.1 The period for the solicitation of claims, being the time between the scheduled hearing date for the Company's application for the Claims Procedure Order of March 21, 2012 and the Claims Bar Date of April 18, is 28 days. Moreover, the time between the publication of notice and mailing of Claims Packages and the Claims Bar Date is only 22-23 days. This is a short time period for a Claims Procedure in which thousands of claims and voting letters could potentially be filed by creditors across Canada, the U.S. and overseas. This may adversely impact the filing of claims by General Unsecured Creditors, including those asserting claims against directors and officers. Having said this, the issuance of Claim Amount Notices by the Company may help to mitigate the administrative problems this expedited process will create for creditors and Monitor;

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6.20.2 The Meetings are scheduled five days (or three business days) following the Claims Bar Date. Under the current timeline, that date is still five days before the deadline for the Monitor to issue Notices of Revision or Disallowance to creditors. This short time period, coupled with the short solicitation period, will not provide sufficient time for the Company and the Monitor to fully adjudicate all Claims, and if necessary issue Notices of Revision or Disallowance, in advance of the Meetings. As a result, it is likely that the status of a number of Claims voted at the Meeting will not at that time be known and, in turn the vote at the Meetings may be determined on the basis of unadjudicated claims. In order to address this concern, the Monitor will tabulate and report on the votes of all unadjudicated Claims separately.

6.21 The Monitor considers that the time frame for the Claims Procedure is extremely short, and is only this short as a result of the terms of the Revised RSA. The Monitor has raised these issues with counsel for the Company and the Initial Supporting Noteholders. These parties have opted to defer making any decision as to whether to amend the dates of the Meetings or the Sanction Hearing until later in the Claims Procedure.

*No mailing of materials to employees/pension beneficiaries*

6.22 The Company is of the view that the proposed orders do not require the Monitor to send Claim Packages and Information Packages to the following creditor groups, on the basis that either their claims are Unaffected Claims or that they do not otherwise have a provable Claim for purposes of the Plan:

6.22.1 Current employees and retirees in respect of pension or health and welfare related claims; and

6.22.2 Pension plan beneficiaries and administrators.

6.23 The Monitor seeks the advice and direction of the Court to confirm that Claims Packages and Information Packages do not need to be sent to these parties. The Monitor is of the view that while certain potential claims of these parties are Unaffected Claims under the Plan, these parties may have claims not identified by the Company that would be Affected Claims under the Plan. The Monitor also notes that under the terms of the draft Claims Procedure Order these parties are not specifically precluded from filing a Proof of Claim, and that the Claims Package and Information Package will be available from the Monitor's website for these and any other creditors wishing to assert a Claim.

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*Monitor's Conclusion*

6.24 Subject to the comments above, the Monitor expects that it will be able to fulfil the duties set out for the Monitor in the Claims Procedure Order and the Meetings Order. Depending on how the processes unfold, it may be necessary for the Monitor to apply to the Court for further directions and/or amendments to those processes.

**7. RECOMMENDATIONS**

7.1 The Monitor confirms its recommendations to the Court that the Plan be approved for filing, and that Meetings Order and the Claims Procedure Order be granted, subject to the expressed reservations on paragraph 55 of the Meetings Order. Further, the Monitor seeks the Court's advice and direction that Claims Packages and Information Packages do not need to be sent to the parties referenced in paragraph 6.22.

7.2 The Monitor also confirms its recommendation that the SISP Order be granted and the designation of the Stalking Horse Bidder be approved. The Monitor recommends that the approval of the Stalking Horse Purchase Agreement and the Stalking Horse Expense Reimbursement Charge in paragraphs 5 and 6 of the proposed SISP Order should be deferred until after the finalized Stalking Horse Purchase Agreement is filed for consideration.

This report is respectfully submitted this 19<sup>th</sup> day of March, 2012.

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



**Mica Arlette, CA, CIRP**  
**Senior Vice President**

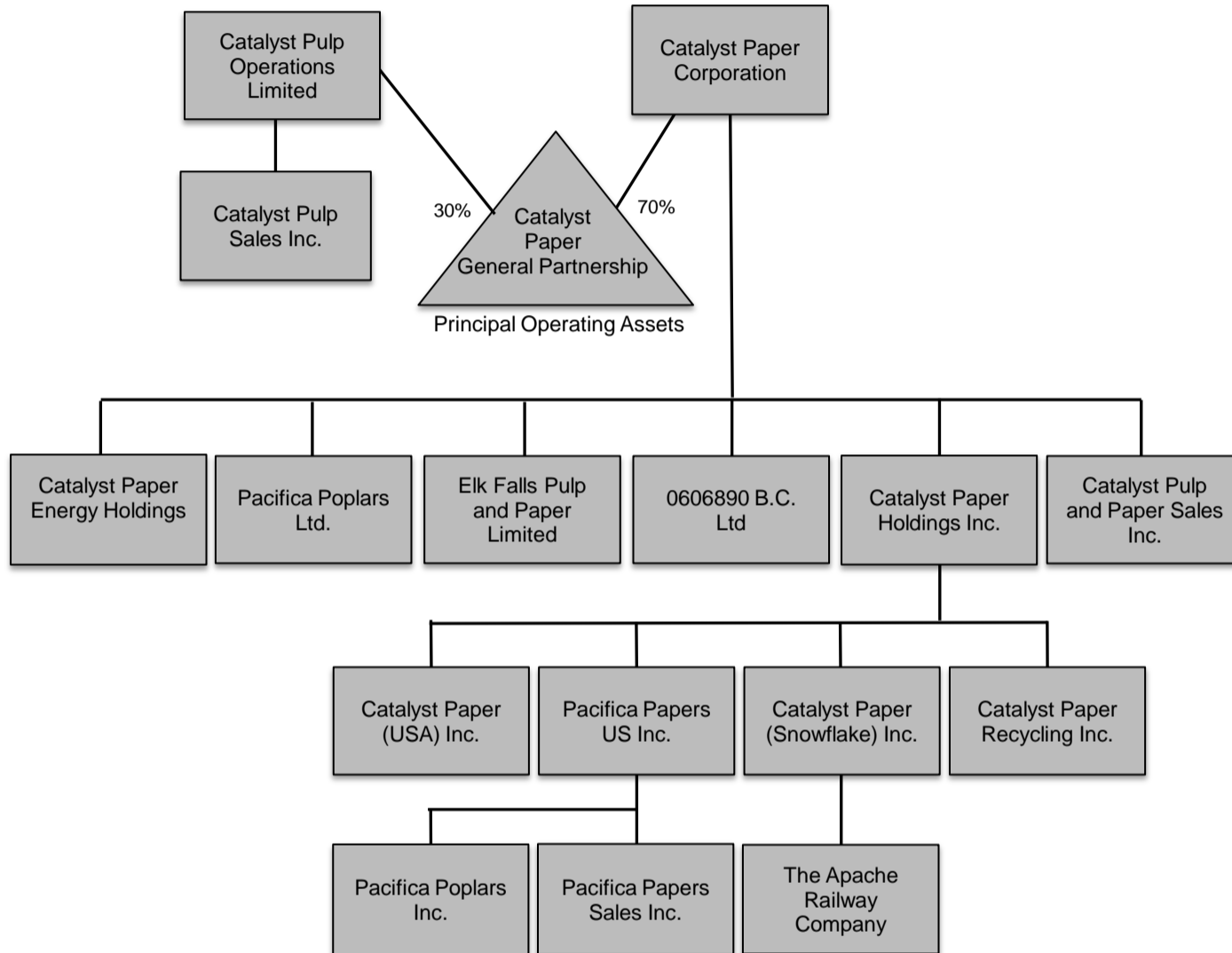


**Neil Bunker, CIRP**  
**Vice President**

## **APPENDIX A**

### **Petitioner Parties Organization Chart**

**Catalyst Paper Corporation  
Petitioner Parties Organization Chart**



**Notes:**

1. Unless otherwise noted, Common share ownership is 100%. Preferred share ownership is not identified in this chart.

## **Appendix B**

### **Creditor Notice, Claim and Voting Provisions**

**CREDITOR NOTICE, CLAIM AND VOTING PROVISIONS**

<b>Claim Type</b>	<b>Claims Procedure Notice</b>	<b>Proof of Claims Process</b>	<b>Meeting Notice</b>	<b>Voting Rules</b>
First Lien Noteholders Claims	<p>Company to provide the First Lien Noteholder Claims Notice to Indenture Trustee setting forth the First Lien Notes Claims Voting Amount.</p> <p>No Claims Notice to be provided to individual Noteholders.</p>	<p>No Proof of Claim required to be filed.</p> <p>One of:</p> <p>a) Indenture Trustee to advise Company and Monitor if it accepts the First Lien Notes Claims Voting Amount as set forth in the First Lien Noteholder Claims Notice (no response is deemed acceptance);</p> <p>b) Indenture Trustee and Company agree to different First Lien Notes Claims Voting Amount; or</p> <p>c) Seek Court determination of First Lien Notes Claims Voting Amount.</p>	<p>Registered First Lien Noteholders will receive an Information Package directly from Globic Advisors.</p> <p>Un-Registered First Lien Noteholders will receive a copy of the Information Package through their intermediaries and registered nominees (who will receive a copy of the Information Package from Globic Advisors).</p>	<p>First Lien Noteholders must vote on the Plan in person or by proxy at the First Lien Noteholders Meeting.</p> <p>Each First Lien Noteholder is entitled to one vote in the amount of its pro rata share of the First Lien Notes Claims Voting Amount.</p>
Unsecured Noteholders Claims	<p>Company to provide the Unsecured Noteholder Claims Notice to Indenture Trustee setting forth the Unsecured Notes Claims Voting Amount.</p> <p>No Claims Notice to be provided to individual Noteholders.</p>	<p>No Proof of Claim required to be filed.</p> <p>One of:</p> <p>d) Indenture Trustee to advise Company and Monitor if it accepts the Unsecured Notes Claims Voting Amount as set forth in the Unsecured Noteholder Claims Notice (no response is deemed acceptance);</p> <p>e) Indenture Trustee and Company agree to different Unsecured Notes Claims Voting Amount; or</p> <p>f) Seek Court determination of Unsecured Notes Claims Voting Amount.</p>	<p>Registered Unsecured Noteholders will receive an Information Package directly from Globic Advisors.</p> <p>Un-Registered Unsecured Noteholders will receive a copy of the Information Package through their intermediaries and registered nominees (who will receive a copy of the Information Package from Globic Advisors).</p>	<p>Unsecured Noteholders must vote on the Plan in person or by proxy at the Unsecured Creditors Meeting.</p> <p>Each Unsecured Noteholder is entitled to one vote in the amount of its pro rata share of the Unsecured Notes Claims Voting Amount.</p>
<p>General Unsecured Creditors, including:</p> <ul style="list-style-type: none"> <li>• Pre-Commencement Claims</li> <li>• Restructuring Claims; and</li> <li>• D&amp;O Claims</li> </ul>	<p>Monitor to provide the Claims Package to each creditor with the books and records of the Company as of January 31, 2012 and each creditor with a Restructuring Claim.</p> <p>If possible, Monitor may also provide a Claim Amount Notice setting forth the amount of a Creditor's Claim.</p>	<p>Creditors who do not receive a Claim Amount Notice must file a Proof of Claim with the Monitor by the Claims Bar Date.</p> <p>Creditors receiving a Claim Amount Notice may either:</p> <p>a) Accept the Claim Amount as stipulated in the Notice with no requirement to file a Proof of Claim; or</p> <p>b) Dispute the Claim by filing a Proof of Claim with the Monitor.</p>	<p>Information Package will be sent to all General Unsecured Creditors by the Monitor.</p>	<p>Except as noted below, General Unsecured Creditors must vote on the Plan in person or by proxy at the Unsecured Creditors Meeting.</p> <p>Each General Unsecured Creditor is entitled to one vote in the amount of their Allowed Claims.</p> <p>Convenience Share Election Creditors and Cash Election Creditors are deemed to vote in favour of the Plan and are not permitted to vote at the Meeting.</p>