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Vancouver

03-Apr-12

REGISTRY

This is the 1st affidavit
of Neil Stevens in this case
and was made on 30/Mar/2012

No. S120712
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED

AND

IN THE MATTER OF THE CANADA BUSINESS CORPORATIONS ACT,
R.S.C. 1985, c. C-44

AND

IN THE MATTER OF THE BUSINESS CORPORATIONS ACT,
S.B.C. 2002, c. 57

AND

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

PETITIONERS

AFFIDAVIT

I, NEIL STEVENS, of Duncan, British Columbia, Vice President, SWEAR (OR AFFIRM) THAT:

1. I am the Vice President of Fibre Optimization for Western Forest Products Inc., and as such I have personal knowledge of the matters hereinafter deposed to by me, save and except where same are stated to be based on information and belief, and whereso stated I verily believe them to be true.
2. I am authorized by WFP to make this affidavit.
3. Western Forest Products Inc. ("Western") is a supplier of wood fibre and pulp logs to the Petitioner Parties ("Catalyst"), pursuant to various long term supply agreements (the "Supply Agreements").

4. Following the interim order in Catalyst's CBCA proceedings, pronounced January 17, 2012 (the "CBCA Initial Order"), Western contacted Catalyst to determine the terms under which the supply of fibre and pulp logs would continue. Western was concerned about the ongoing viability of Catalyst, and requested that Catalyst accept cash on delivery ("COD") or cash in advance ("CIA") terms. Prior to the stay of proceedings, we were able to agree upon certain minor variations to the usual payment terms, but for the most part our terms remained unchanged.

5. Western was advised that there was a stay of proceedings in place, that under the CBCA Initial Order Western was obligated to continue to supply fibre and pulp on the usual credit terms applicable under the Supply Agreements, and that Western could neither discontinue its supply nor require COD or CIA terms.

6. Western found this to be a undue hardship and unusual situation, as in its past experience with restructuring companies, supply obligations are balanced with a right to require immediate or advance payment.

7. Western continued to supply product to Catalyst between January 17, 2012 and January 31, 2012, the date on which Catalyst elected to convert its restructuring from a CBCA-governed process to a CCAA-governed process. As a result of this supply, without the requirement of immediate payment, Catalyst became indebted to Western in the sum of \$1.3 million for the period January 17 – January 30, 2012 (the "CBCA Debt").

8. The CBCA Debt remains due and owing, and it was only upon the issuance of Catalyst's proposed Plan (on March 16, 2012) that Western learned that Catalyst was not intending to pay the CBCA Debt. Prior to the issuance of its proposed Plan, Western relied upon Catalyst's representations, including press releases and statements made by its legal counsel to this Court, that trade creditors would not be affected by Catalyst's restructuring, which was to be a capital reorganization, and that trade creditor accounts would be fully paid in the ordinary course.

9. Upon the granting of the Initial Order in the CCAA proceedings (the "CCAA Initial Order") on January 31, 2012, Western became concerned about its future accounts, and advised Catalyst that it would be discontinuing its supply of product unless and until it received immediate payment, as required under s. 11.01 of the CCAA.

10. Between January 31, 2012 and February 12, 2012, Western required, and Catalyst provided, CIA terms. In practice, Catalyst provided payment in advance for the cost of product that it received. From an administrative standpoint, this is a very simple arrangement, requiring only that Western issue an advance request prior to delivery of fibre and reconciliation on invoicing for actual deliveries.

11. Pursuant to an order pronounced January 31, 2012 (the "Critical Supplier Order"), Western was declared to be a Critical Supplier of Catalyst, and was from that date obligated to provide credit to Catalyst upon the terms of the Supply Agreements.

12. Western and the Monitor agreed upon the applicable credit terms, and established an Individual Credit Extension Amount ("ICEA") in the amount of \$3 million.

13. Western has intended to address the non-payment of the CBCA Debt, and to seek the termination of the Critical Supplier Order, as soon after March 11, 2012 as was possible. However, despite repeated requests by Western's counsel, and counsel for other Critical Suppliers, the Monitor did not provide the necessary cash flow statements until the filing of its Seventh Report to Court, which was delivered to our counsel at 6:00 p.m. on March 27, 2012, and reviewed by Western on March 28, 2012.

14. The Monitor provides support for the continuation of the Critical Supplier Charge on the basis of assumptions that are not accepted by Western. Included in these are the Monitor's statement in paragraph 5.10, unsupported by any evidence that has been provided to Western or its counsel, that the administration of the ICEA process is preferable (to Catalyst) to a CIA or COD process.

15. The position of Western is quite different in that regard. We advised the Monitor on March 14, 2012 of the administrative difficulty created by the ICEA process. The administration of the Critical Supplier regime and the obligation to monitor the ICEA is a time-consuming, disruptive and costly matter for Western. Based upon our dealings with Catalyst, we understand that their experience has been similar. From an administrative perspective, it is simply counterintuitive, and wrong, to assert that the ICEA program is easier than a CIA or COD program.

16. Catalyst is not only purchasing product from Western; it is also supplying product to Western, and the terms of the Supply Agreements included cross-accounting and set-off rights. To protect its interests, and to assist Catalyst (and the Monitor) in understanding where their accounts are in relation to the ICEA, Western is forced to assess Western's net exposure to Catalyst (Net Exposure) on a regular basis.

17. To monitor the Net Exposure, Western:

- collects the Catalyst data necessary to prepare invoices weekly, generally by the Wednesday of the week following delivery
- reconciles the accounts receivable balance on a weekly basis to summarize the new transactions for the prior week and apply the payments received from CPC
- determines the payment date by invoice to enable us to monitor payments and identify late payments
- forecasts fibre deliveries for the current week to estimate Western's exposure as at the Friday of the current week

The process to reconcile the accounts and calculate the Net Exposure takes one employee approximately 6 hours per week, excluding any time to generate the invoices for fibre deliveries.

18. Western receives Catalyst's calculation of the exposure amount for the prior week, generally by the Wednesday of the current week. We then spend 1 to 2 hours to compare the

estimate we prepared the week prior to monitor our exposure to the amount calculated by Catalyst for actual transactions. Although Catalyst is currently providing adequate data to compare the exposure amounts, the worksheet it provides does not summarize the data. There are currently over 8,000 transactions identified on their weekly worksheet as they are reporting all transactions post-filing. Catalyst is not identifying the outstanding amounts, it is simply reporting all transactions. This necessitates that Western reconcile Catalyst's report to its own records.

19. As Catalyst makes payments based on the credit notes they issue for fibre deliveries to Western, we need to review the detail transactions by day to reconcile differences in the cut off periods used by Catalyst to prepare their credit notes as these may (and do) differ from the cut off dates we use to issue the invoices for the fibre deliveries. Catalyst does pay on the Western invoices for chips delivered by scow, for hog & fuel deliveries from Stillwater and log deliveries.

20. Receiving cash in advance for weekly fibre deliveries would streamline this process significantly, as it would eliminate the requirement to estimate and reconcile the weekly exposure amount and would therefore greatly simplify the account reconciliation, as it would ensure that both parties are using the same invoice cut off dates. We would reconcile the cash advances to the actual week's deliveries.

21. Catalyst must calculate an exposure amount for all vendors identified as Critical Suppliers. The exercise they work through with Western therefore has to be repeated for all other suppliers. Western's exposure account may be more complicated than that of other vendors given the number and type of transactions. Nonetheless, based upon the time involved on our side of the equation, it is apparent to Western that Catalyst is required to spend a great amount of time to tabulate and report out on the exposure amounts for each vendor. We then receive that information from the Monitor, without all required support details, which compels us to request the detail information from CPC in order to reconcile the exposure amount.

SWORN (OR AFFIRMED) BEFORE ME)
 at Victoria, British)
 Columbia, on 30/Mar/2012.)
 _____)
 A Commissioner for taking)
 Affidavits for British Columbia)

BASIL R. HOBBS
HOBBS HARGRAVE
301 FRANKLIN ST
NANAIMO BC V9R 2X5

NEIL STEVENS
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1st AFFIDAVIT of NEIL STEVENS

BULL, HOUSER & TUPPER LLP
Barristers & Solicitors
3000 - 1055 West Georgia Street
Vancouver, B.C. V6E 3R3
Telephone: (604) 687-6575
Facsimile: (604) 641-4949
E-mail: litigation@bht.com
Attention: Steven D. Dvorak