

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 TENTH REPORT TO COURT

April 18, 2012



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

April 18, 2012

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1. INTRODUCTION

- 1.1 On January 31, 2012, on the application of Catalyst Paper Corporation and the entities included in Appendix A (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. was appointed Monitor of the Company (the "**Monitor**").
- 1.2 Currently, there is a stay of proceedings under the CCAA that continues until April 30, 2012.
- 1.3 This is the Monitor's Tenth Report to Court. The purpose of this report is to advise the Court of the following matters:
 - 1.3.1 The final results of the review of the security held in favour of the 2016 Noteholders (the "**2016 Notes Security**");
 - 1.3.2 The distribution of the Claims Package and the Information Package;
 - 1.3.3 The status of the Company's post filing operations including the Company's actual cash flow for the period March 1 to March 31, 2012 in comparison to the Revised Forecast provided in the Monitor's Seventh Report dated March 27, 2012;
 - 1.3.4 The Company's restated revised cash flow forecast (the "**Restated Revised Forecast**") for the period April 1 to June 30, 2012; and
 - 1.3.5 The Monitor's views with respect to the Company's application for an extension of the stay of proceedings to June 30, 2012.
- 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 application materials in the CCAA proceedings.

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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

- 2.2 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.
- 2.3 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. REVIEW OF THE 2016 SECURITY

- 3.1 As noted in our Ninth Report to the Court dated April 10, 2012, Fasken Martineau DuMoulin LLP ("**Fasken Martineau**"), Canadian counsel to the Monitor, has provided their opinion to the Monitor on the validity and enforceability of the 2016 Notes Security in all jurisdictions in Canada where the Petitioners' assets are located. Fasken Martineau opined that the 2016 Notes Security was valid and enforceable against a trustee in bankruptcy and constitutes a charge on the assets granted for valuable consideration.
- 3.2 Fasken Martineau engaged Perkins Coie LLP to opine on the validity and enforceability in the United States of the General Security Agreement (the "**Security**") granted by certain of the Company's US subsidiaries (the "**US Entities**") in favour of Computershare Trust Company of Canada as collateral trustee on behalf of itself, Wilmington Trust FSB, as trustee under note indentures dated as of March 10, 2010 and May 19, 2010, and the Secured Debtholders, including the Noteholders (each as defined in the Security). The opinion confirms that, subject to customary assumptions

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and provisos, the Security is valid and enforceable, is properly perfected in all jurisdictions required under the laws of the United States, and constitutes a valid charge on those assets.

4. SERVICE OF CLAIMS PACKAGE AND NOTICE OF CREDITORS MEETINGS

Original Meeting Dates

- 4.1 On March 22, 2012, the Court made an order (the “**Claims Procedure Order**”) initiating a claims procedure and an order (the “**Meetings Order**”) authorizing the filing of the Company’s plan of arrangement (the “**Plan**”), the distribution of the Plan and related documents to creditors and authorizing the Company to convene meetings of its creditors to vote on the Plan on April 23, 2012.
- 4.2 The Monitor completed the publication requirements in the specified newspapers and the Monitor’s website in accordance with the Claims Procedure Order and the Meetings Order.
- 4.3 The Claims Packages and the Information Packages, as defined in the Claims Procedure Order and the Meetings Order, respectively, have been delivered to the Company’s creditors. Pursuant to the Claims Procedure Order, the Claims Packages were to be mailed out by March 27, 2012. Pursuant to the Meetings Order, the Information Packages were to be mailed out by March 28, 2012.
- 4.4 The Claims Packages and the Information Packages were mailed out together on March 28, 2012 (one day after the Claims Packages were to have been mailed out) for all creditors except those located in the United States.
- 4.5 The combined mailing was delayed an additional day for creditors based in the United States. This was due to customs requirements that required each package to be cleared individually if mailed in Canada. To avoid significant delays, the packages were shipped to Blaine, Washington in bulk and then delivered to the US Postal Service for mailing to the individual creditors. Therefore, all mailings were completed by March 29, 2012.

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Rescheduling of the Creditors Meetings

- 4.6 On April 16, 2012, dates of the Creditor Meetings were rescheduled and the court made an order on April 17, 2012 amending certain previous Orders of the Court to provide that:
 - 4.6.1 The Creditor Meetings shall now be held on May 2, 2012;
 - 4.6.2 The deadline for the noteholders to submit their proxies to the Solicitation Agent shall now be 1:00 pm Pacific Time on May 1, 2012; and
 - 4.6.3 The application for the Sanction Order, if required, shall now be heard on May 7, 2012. Any party planning to oppose the Company's application for the Sanction order must now serve their materials by noon on May 4, 2012.
- 4.7 Notice of the re-scheduled Creditor Meetings date was provided as follows:
 - 4.7.1 Notification was provided to the service list and published on the Monitor's website on Monday April 16, 2012;
 - 4.7.2 A notice was mailed to the general unsecured creditors on Tuesday April 17, 2012;
 - 4.7.3 The Solicitation agent provided notice to the Noteholders (through their intermediaries) on April 17, 2012; and
 - 4.7.4 The Company issued a general press release on April 16, 2012.

5. POST FILING OPERATIONS

- 5.1 Since the date of filing, the Company has continued production at its 4 mills in line with the Company's annual operating plan. There has been no significant decline in sales or loss of customers as a result of the CCAA filing.
- 5.2 The Company's financial results for the 1st quarter of 2012 are scheduled to be released to the public on or around May 10, 2012. The Monitor has not identified any sales or production results which would materially affect the Company's 1st quarter earnings with the exception of the CCAA related matters.

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6. CASH FLOW FOR THE PERIOD MARCH 1 TO MARCH 31, 2012

- 6.1 The Company's statement of actual cash flows for the period March 1 to March 31, 2012, as compared to the Revised Forecast as included in the Monitor's Seventh Report dated March 27, 2012, is set out in Appendix B.
- 6.2 The Monitor has the following comments with respect to the Company's cash flow to March 31, 2012:
 - 6.2.1 The Company's net cash flow for the month of March 2012 was negative \$12.8 million, which is \$13.3 million better than the Revised Forecast. The improvement over the Revised Forecast was primarily due to the following:
 - 6.2.1.1 The receipts from trade accounts receivable were \$4.2 million greater than forecast. This is a normal timing variance and is not material in relation to total monthly collections.
 - 6.2.1.2 Total operating disbursements were \$7.1 million greater than forecast. This variance is comprised of raw material and freight costs that were \$10.1 million higher than forecast, offset by employee costs that were \$2.1 million less than forecast.
 - 6.2.1.3 The large unfavourable variance in raw material and freight is due to larger than forecast raw material purchases and the timing of payments which were higher than expected. The Company is hopeful that this will be a timing difference that will reverse itself as the Company's restructuring nears completion.
 - 6.2.1.4 The employee cost positive variance was due to a timing difference which will reverse in April 2012.
 - 6.2.1.5 Non-operating disbursements were \$14.7 million less than forecast primarily as a result of CCAA Restructuring Costs that were \$14.6 million less than forecast. The CCAA Restructuring Costs relate to a number of CCAA-related costs and commitments that have been incurred or made but for which the timing of the payments is uncertain.

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- 6.2.2 The Company's net cash flow for the period January 31 to March 31, 2012 (ie. the full period of the CCAA proceedings) was negative \$7.6 million. \$8.1 million of cash generated from operations was offset by the Non Operating disbursements of \$15.7 million which consisted primarily of professional fees and CCAA Restructuring Costs. The Monitor notes that absent the significant costs of the CCAA proceedings, including professional fees, the Company would have generated a positive cash flow before interest service costs on debt stayed by the proceedings.
- 6.3 The Monitor has the following comments with respect to the Company's liquidity position as at March 31, 2012:
- 6.3.1 As of the end of March 2012, the Company had borrowed \$86.0 million under its DIP Facility. The Company continued to post cash of \$12.8 million to collateralize letters of credit drawn against the ABL Facility, which have not been transferred to the DIP Facility. The DIP Lender also held \$7.0 million of cash in blocked accounts which it did not apply against the DIP Facility until mid-April 2012. As a result, \$19.8 million of the Company's ending cash balance is restricted and the available cash is \$17.9 million;
- 6.3.2 The Company's calculated Available Liquidity (i.e. available cash plus unused DIP facility) as at March 31, 2012 totalled \$22.5 million. However, as noted above, various commitments have been made relative to the CCAA Restructuring Costs, and therefore a provision against the available liquidity has been made to provide a better estimate of the Available Liquidity. After taking these commitments into consideration, the Company's Available Liquidity is \$7.9 million, which was \$10.2 million lower than forecast. The tightened liquidity was carefully managed by the Company and has improved during April 2012;
- 6.3.3 The Monitor notes that the letters of credit posted to secure the KERP obligations have not yet been cancelled due to an appeal filed by Koskie Minsky LLP as representative counsel for a group of employees and retirees of the Company. The letters of credit are secured by cash collateral. The appeal is in respect of certain provisions of the Amended and Restated Initial Order that affect the priority of possible pension claims relative to certain court ordered charges including a charge ordered to secure the KERP obligations. If the letters of credit are cancelled, \$8.2 million of cash would become available and improve the Company's liquidity.

7. RESTATED REVISED FORECAST APRIL 1 TO JUNE 30, 2012

- 7.1 Attached as Appendix C is the Company's Revised Forecast as previously presented in the Monitor's 7th Report to Court dated March 27, 2012, which has been updated and

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restated to reflect the opening DIP loan and Available Cash balances. No changes have been made to the forecasted receipts or disbursements.

- 7.2 The Monitor and the Company are currently working on a new forecast which is expected to be completed by the end of April 2012. The process to update the Company's cash flow is quite complicated and time consuming as it involves input and review from all levels of the Company as well as the approval of the DIP Lender. The Monitor does not expect that the new forecast will reflect any significant changes in the operating results over the entire period to June 30, 2012, but there will be changes to the timing of cash receipts and cash disbursements on a week-to-week basis. This would be a timing issue only.
- 7.3 Overall, the restated revised forecast reflects liquidity levels that are lower than reflected in the Revised Forecast, primarily due to the lower than forecast results for March 2012. The Company has reported liquidity levels during the first two weeks of April 2012 that are generally consistent with the revised restated forecast. The Monitor notes that the Available Liquidity appears sufficient for the forecast period.

8. EXTENSION OF THE STAY OF PROCEEDINGS

- 8.1 The Company filed its Plan on March 22, 2012 and the Creditor Meetings have been re-scheduled to May 2, 2012. In the event that the Plan is approved, the Company intends to implement the Plan within 21 days of May 7, 2012, the date on which the Company is scheduled to apply for the Sanction Order.
- 8.2 The Company has also obtained the Court's approval to the SISP in the event that the Plan is not approved. If the SISP is initiated, up to 73 days is required to complete the SISP assuming there is sufficient interest in the Company's assets to proceed with an auction.
- 8.3 The Company has applied for an extension of the stay of proceedings until June 30, 2012. The Monitor considers this period of approximately 8 weeks to be reasonable. As the Company has acted and continues to act in good faith and with due diligence, the Monitor supports the Company's request for an extension of the stay of proceedings.

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This report is respectfully submitted this 18th day of April, 2012

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



**Michael J. Vermette, CA, CIRP
Senior Vice President**

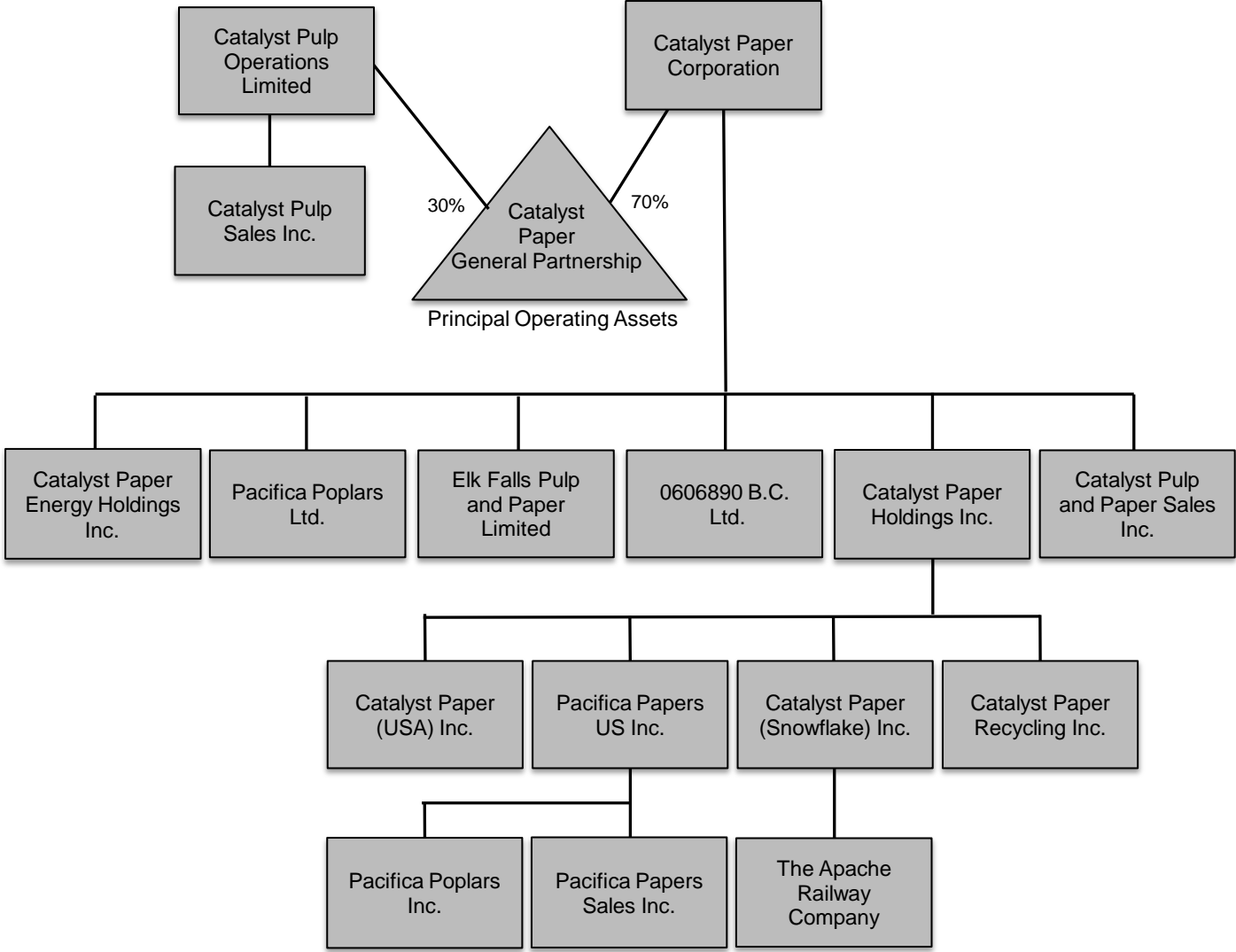


**Neil Bunker, CA, CIRP
Vice President**

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

Statement of Actual Cash Flows for the period January 31, 2012 to March 31, 2012

Catalyst Paper Corporation
Statement of Cash Flows - Actual vs. Forecast
For the period of January 31, 2012 to March 31, 2012

	January 31 to February 29	Actual	March 1 to March 31	Forecast	Variance	January 31 to March 31
CAD\$ millions	Actual	\$	Actual	\$	\$	Actual
		\$		\$	\$	\$
Receipts						
Collection of Trade Accounts Receivable	96.9		103.0	98.8	4.2	199.9
Collection of Other Accounts Receivable	7.4		6.6	5.1	1.5	14.0
Total Receipts	104.3		109.6	103.9	5.7	213.9
Disbursements - Operating						
Total Raw Material and Freight	(35.3)		(53.1)	(43.0)	(10.1)	(88.4)
Total Production and Operating Costs	(35.1)		(47.8)	(49.3)	1.5	(82.9)
Total Employee Costs	(18.7)		(14.7)	(16.8)	2.1	(33.4)
Total Property Tax/Insurance/Other Taxes	(0.2)		(0.9)	(0.3)	(0.6)	(1.1)
Total Disbursements - Operating	(89.3)		(116.5)	(109.4)	(7.1)	(205.8)
Disbursements - Non Operating						
Restructuring Professional Fees	(2.0)		(2.7)	(3.0)	0.3	(4.7)
CCAA Restructuring Costs	(5.6)		(2.8)	(17.4)	14.6	(8.4)
DIP/Revolver Interest and Commitment Fees	(2.2)		(0.4)	(0.2)	(0.2)	(2.6)
Total Non Operating Disbursements	(9.8)		(5.9)	(20.6)	14.7	(15.7)
Total Disbursements	(99.1)		(122.4)	(130.0)	7.6	(221.5)
Net Cash Flow	5.2		(12.8)	(26.1)	13.3	(7.6)
Ending Cash	43.4		37.7	19.4	18.3	37.7
Less: Cash Collateral held for LCs	(33.8)		(19.8)	(14.4)	(5.4)	(19.8)
Available Cash	9.6		17.9	5.0	12.9	17.9
DIP Revolver Balance End of the Period	78.9		86.0	81.0	(5.0)	86.0
Calculated Available Liquidity	43.4		22.5	18.1	4.4	22.5
Provision for Unspent CCAA Restructuring Costs ¹			(14.6)	0.0	(14.6)	(14.6)
Adjusted Available Liquidity	43.4		7.9	18.1	(10.2)	7.9

¹ The Company had forecasted to pay \$17.4 million for CCAA Restructuring Costs in the month of March 2012 of which only \$2.7 million was paid during the month. The Company and the Monitor both anticipate that the unspent amount will be paid in future periods and accordingly, a provision for the unspent balance was made against the Company's Available Liquidity.

Appendix C

**Restated Revised Forecast for the period
April 1, 2012 to June 30, 2012**

Catalyst Paper Corporation

Restated Revised Forecast¹ for the period of April 1, 2012 to June 30, 2012

In CAD\$ millions

	Apr-12					May-12					Jun-12					Apr 1- Jun 30	
Period #	5	6	7	8		9	10	11	12		14	15	16	17			
Business Days in the Period	4	5	5	6	20	4	5	5	8	22	6	5	5	5	21	63	
Calendar Days in the Period	8	7	7	8	30	6	7	7	11	31	7	7	11	11	36	97	
Period Ended	8-Apr	15-Apr	22-Apr	30-Apr	Total	6-May	13-May	20-May	31-May	Total	10-Jun	17-Jun	24-Jun	30-Jun	Total	Total	
Receipts - Operating																	
Collection of Trade AR	21.7	27.0	27.0	32.4	108.1	20.1	25.1	25.1	40.1	110.4	30.6	25.5	25.5	25.5	107.1	325.6	
Collection of Other AR	0.9	1.2	1.2	1.4	4.7	1.2	1.5	1.5	2.4	6.6	1.8	1.5	1.5	1.5	6.3	17.6	
Total Receipts - Operating	22.6	28.2	28.2	33.8	112.8	21.3	26.6	26.6	42.5	117.0	32.4	27.0	27.0	27.0	113.4	343.2	
Disbursements - Operating																	
Raw Material and Freight Costs	(7.2)	(8.9)	(9.0)	(10.6)	(35.7)	(10.1)	(12.6)	(12.6)	(20.1)	(55.4)	(10.7)	(9.0)	(9.1)	(9.0)	(37.8)	(128.9)	
Production and Operating Costs	(8.1)	(8.7)	(9.5)	(10.9)	(37.2)	(10.1)	(11.6)	(12.0)	(17.8)	(51.5)	(8.4)	(9.8)	(7.1)	(11.9)	(37.2)	(125.9)	
Employee Costs	(3.0)	(7.2)	(4.5)	(7.4)	(22.1)	0.0	(8.3)	(4.4)	(8.2)	(20.9)	(5.4)	(2.9)	(5.4)	(2.8)	(16.5)	(59.5)	
Property Tax/Insurance/Other Taxes	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.1)	(0.1)	(0.1)	(0.3)	(0.6)	(0.1)	0.0	0.0	0.0	(0.1)	(1.1)	
Total Disbursements - Operating	(18.4)	(24.9)	(23.1)	(29.0)	(95.4)	(20.3)	(32.6)	(29.1)	(46.4)	(128.4)	(24.6)	(21.7)	(21.6)	(23.7)	(91.6)	(315.4)	
Net Operating Cash Flows					4.2	3.3	5.1	4.8	17.4	1.0	(6.0)	(2.5)	(3.9)	(11.4)	7.8	5.3	27.8
Disbursements - Non-Operating																	
Restructuring Professional Fees	0.0	(2.1)	0.0	(2.1)	(4.2)	0.0	(1.7)	0.0	(1.8)	(3.5)	(1.2)	0.0	(1.3)	0.0	(2.5)	(10.2)	
CCAA Restructuring Costs	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	0.0	0.0	
DIP Loan Fees and Interest	0.0	(0.1)	0.0	(0.1)	(0.2)	0.0	0.0	0.0	(0.1)	(0.1)	(0.1)	0.0	0.0	(0.1)	(0.2)	(0.5)	
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	0.0	0.0	
Total Disbursements - Non-Operating	0.0	(2.2)	0.0	(2.2)	(4.4)	0.0	(1.7)	0.0	(1.9)	(3.6)	(1.3)	0.0	(1.3)	(0.1)	(2.7)	(10.7)	
Net Receipts (Disbursements)					4.2	1.1	5.1	2.6	13.0	1.0	(7.7)	(2.5)	(5.8)	(15.0)	6.5	5.3	17.1
Ending Book Cash Balance					19.4	19.2	19.2	16.9	16.9	15.5	15.5	15.5	15.4	15.4	15.4	15.4	
Less: Cash Collateral Held for LCs	(14.4)	(14.2)	(14.2)	(11.9)	(11.9)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)		
Available Ending Cash Book Balance					5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.9	4.9	4.9	4.9	
DIP Revolver Balance at End of Period					63.5	62.1	57.0	52.2	52.2	49.8	57.6	60.1	65.8	65.8	59.3	54.0	
Adjusted Available Liquidity ²					20.9	22.7	38.9	41.4	41.4	43.4	35.7	29.9	24.2	24.2	30.6	35.9	

¹ Restated Revised Forecast is the cash flow forecast summary presented in the Monitor's 7th Report to Court dated March 27, 2012 adjusted for actual cash and DIP Loan balances as at April 1, 2012.² Adjusted Available Liquidity is equal to Borrowing Base Availability >\$26.3MM plus Ending Book Cash less DIP Revolver at End of Period less the provision for unspent CCAA Restructuring Costs.