

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 ELEVENTH REPORT TO COURT

April 27, 2012



**CATALYST PAPER CORPORATION, ET AL
MONITOR’S ELEVENTH 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 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 June 30, 2012.
- 1.3 This is the Monitor’s Eleventh Report to Court. The purpose of this report is to provide further information requested by the Court regarding payments of pre-filing arrears amounts to the Company’s suppliers pursuant to the terms of the Initial Order as amended. This report includes the following:
 - 1.3.1 An overview of the steps taken by the Company and the Monitor to review, evaluate and report on pre-filing arrears payments to suppliers; and
 - 1.3.2 A summary of the CCAA Restructuring Cost Payments (as defined below) made to April 20, 2012, and the purposes of these payments.
- 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.

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

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- 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. PRE-FILING – PLANNING AND IDENTIFICATION

- 3.1 The Monitor reported to the Court in its Pre-Filing Report and First Report on the considerations of the Company and the Monitor in evaluating whether pre-filing arrears payments ought to be made to certain suppliers. Certain of these comments are included here by way of background to this report.
- 3.2 Prior to the CCAA proceedings, the Monitor and Company management reviewed the suppliers that Catalyst considered key to the Company's ongoing operations, and considered the Company's intentions for dealing with these suppliers during the CCAA proceedings. The Company and the Monitor agreed that the continued and uninterrupted operation of the Company's business was critical. This was dependent on, among other things, the ongoing provision of key goods and services, including the following:
 - 3.2.1 Ability to obtain raw material inputs, including wood fibre, chemicals, and old newsprint, to be used in the paper manufacturing process;
 - 3.2.2 Continued supply of energy and utilities, including electricity and gas, to power the Company's mills and continue manufacturing;
 - 3.2.3 Maintenance of the Company's specialized production equipment; and
 - 3.2.4 Transportation of both raw material inputs and finished products.

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- 3.3 The Company and the Monitor established further criteria to distinguish whether a given supplier was a provider of key goods and services. These criteria varied to some degree by the type of good or service, but principally concerned the following:
 - 3.3.1 The unique nature of goods/services supplied, and the ability to substitute supply;
 - 3.3.2 The volume supplied, and the ability to substitute that volume; and
 - 3.3.3 The impact of loss of supply on operations.
- 3.4 The Company identified a number of suppliers that, in its view, met these criteria and were considered important to its operations. The Monitor reviewed the list of such suppliers with the Company and agreed on a subset of this group that could be considered necessary for the uninterrupted operation of the Company's business, including those who could potentially assert lien claims over the Company's assets.
- 3.5 The Company and the Monitor considered two potential alternatives for managing this subset of suppliers in order to ensure continued supply:
 - 3.5.1 Paying some portion of the pre-filing arrears owing to a particular supplier (each a "**Key Supplier**"); or
 - 3.5.2 Designating a supplier as a "**Critical Supplier**" pursuant to section 11.4 of the CCAA, and requiring them to continue to supply to the Company on the basis that any amounts owing to such supplier for the post-filing provision of goods or services would be secured under a Critical Suppliers' Charge.
- 3.6 In respect of the Key Suppliers, paragraph 8 of the Amended and Restated Initial Order ("**ARIO**") dated February 3, 2012 authorized the Company to pay certain expenses incurred prior to the Order Date. These included the following:

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- (c) *the fees and disbursements of any Assistants¹ ... retained or employed by the Petitioner Parties, including counsel for Wilmington Trust FSB in their capacity as Trustee under the Indentures dated as of March 10, 2010 and May 19, 2010, which are related to the Petitioner Parties' restructuring, at their standard rates and charges (and, for certainty, shall exclude any success or transaction fee), including payment of the fees and disbursements or legal counsel retained by the Petitioner Parties and the Directors, whenever and wherever incurred, in respect of:*
 - (i) *these proceedings or any other similar proceedings in other jurisdictions in which the Petitioner Parties or any subsidiaries or affiliated companies of the Petitioner Parties are domiciled;*
 - (ii) *any litigation in which the Petitioners are named as a party or are otherwise involved, whether commenced before or after the Order Date; and*
 - (iii) *any related corporate matters;*
- (d) *all amounts owing for goods and services actually supplied to the Petitioner Parties:*
 - (i) *by chemical suppliers, fibre suppliers, utility and fuel suppliers, old newspaper suppliers and other related products, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties, the supplier is crucial to the business and ongoing operations of any of the Petitioner Parties;*
 - (ii) *by freight and logistics suppliers, third party customs brokers, agents, freight carriers, freight forwarders, warehousemen, and shippers, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties, the party providing the good or service is crucial to the business and ongoing operations of any of the Petitioner Parties; and*
 - (iii) *by other parties providing goods or services, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties, the supplier is crucial to the business and ongoing operations of any of the Petitioner Parties;*

¹ The "Assistants" primarily consist of the legal and financial advisors to the Ad Hoc Group of 2016 Noteholders, the cross-holder group of 2016 and 2014 Noteholders, the DIP Agent, the Company's Board of Directors, as well as local counsel for the Company in the United States.

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(e) with the prior consent of the Monitor and the DIP Agent, all amounts owing to creditors who, prior to the date of this Order, lawfully retained Property or exercised possessory liens against Property.

- 3.7 Paragraphs 8(d) and 8(e) provide that the Company was authorized to make pre-filing payments to suppliers that the Company considered were “crucial to the business and ongoing operations of any of the Petitioner Parties.” The Company and the Monitor considered that the Key Suppliers that had been identified satisfied this criterion.
- 3.8 The cash flow forecast filed as part of the Company’s initial application in the CCAA Proceedings included a line item for “CCAA Restructuring Costs” totaling \$23.0 million in the period from January 31 to April 30, 2012. These costs related primarily to amounts potentially payable to Key Suppliers for pre-filing arrears or deposits to ensure continued supply post-filing, such as those referred to above in paragraph 8(d) and 8(e) of the ARIO, as well as payments to Assistants for pre-filing work performed pursuant to paragraph 8(c) of the ARIO. This amount was not intended to represent full payment of arrears to all Key Suppliers, but was a provision for what the Company estimated it may need to pay to some of these suppliers during the course of the proceedings. For purposes of this report, payments pursuant paragraphs 8(c), 8(d) and 8(e) of the ARIO shall be referred to as “**CCAA Restructuring Cost Payments.**”
- 3.9 In respect of the Critical Suppliers, a further Order of the Court (the “**Critical Suppliers Order**”) amended the ARIO to provide for the designation of a total of sixteen (16) Critical Suppliers in accordance with section 11.4 of the CCAA. The Critical Suppliers were directed to continue supplying goods and services to the Company on credit terms going forward from February 7, 2012. The Monitor’s Second Report set out the reasons why the designation of these suppliers as Critical Suppliers was appropriate. Some of the Critical Suppliers did receive CCAA Restructuring Cost Payments for services performed prior to their designation as Critical Suppliers.
- 3.10 Paragraph 8 of the ARIO also permitted the Company to pay certain pre-filing wage arrears, independent contractors, customer rebates and discounts, and customs and duty payments. These payments were not treated as CCAA Restructuring Cost Payments, but have been tracked and reported as part of the normal operating disbursements of the Company, and are not discussed further in this report.

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4. POST FILING – MONITORING AND REPORTING

- 4.1 CCAA Restructuring Cost Payments (except those to Assistants pursuant to paragraph 8(c)) require the approval of the Monitor and the DIP Agent. In order to manage the oversight and approval of these payments, the Monitor established a protocol with the Company and other stakeholders for their review and approval, whereby the Company is required to provide the Monitor with sufficient evidence that the payment is necessary and appropriate. The approval of payments is subject to the relevant supplier and the Company entering into an agreement governing the terms of such payments and the continued supply of goods and services on appropriate terms, including as to credit.
- 4.2 The Monitor has made an independent assessment of each supplier to whom it was proposed a CCAA Restructuring Cost Payment be made, and in respect of which the Company requested the Monitor's consent. In deciding whether to grant its consent, the Monitor has considered the Company's analysis of each such supplier together with the key factors referred to above and its knowledge of the Company's operations. While most of the suppliers to whom CCAA Restructuring Cost Payments have been made were in the subset of suppliers identified prior to the CCAA proceedings, some additional Key Suppliers were identified in the course of the proceedings to whom the Company and the Monitor considered it appropriate to make payments. For all payments, the DIP Agent was consulted and approval for the payments was granted.
- 4.3 The Monitor has also tracked all payments to Assistants pursuant to paragraph 8(c) of the ARIO.
- 4.4 At the request of Fraser Milner Casgrain LLP, counsel for the 2016 Noteholders, and Goodmans LLP, counsel to the cross-holder group of 2014 and 2016 Noteholders, the Monitor agreed to report to them on a weekly basis on the CCAA Restructuring Cost Payments made, as well as anticipated further payments to be made. This reporting has continued throughout these proceedings.

5. CCAA RESTRUCTURING COST PAYMENTS MADE TO APRIL 20, 2012

- 5.1 In the period from January 31 to April 20, 2012, the Company has made a total of \$8.9 million in CCAA Restructuring Cost Payments. The payments are summarized as follows:

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Category	Paragraph Reference	Number of Vendors	Pre-Filing Amount Paid
Possessory liens over goods in transit or storage	5.2	14	3,165,699
Builders and repairers lien claims	5.3	3	475,424
Sole or dependent supplier arrears	5.4	8	1,275,119
Insurance Policy Arrears	5.5	2	433,956
Pre-Filing Professional Fees	5.6	13	3,568,968
Total		40	8,919,165

- 5.2 Certain payments were required to release goods in transit or in storage with various freight carriers and storage providers who had asserted possessory liens over goods in their possession. These payments have been necessary in order to ensure the continued and uninterrupted delivery of raw materials used in the Company's regular operations and to provide regular deliveries to customers. Payments made to discharge possessory liens have been reviewed to ensure that the supplier was still in possession of the goods in question and the value of the goods being released exceeded the value of the payment.
- 5.3 Payments have also been made to suppliers asserting builders' and repairers' liens. These payments were required in order to allow completion of ongoing construction projects necessary for the Company's operations, and to recover certain Company assets that were being repaired at the Order Date and were needed as part of regular operations. Again, these payments have been limited to those cases where the Monitor believed that there was a valid builder's or repairer's lien that had been or could be asserted and no economically feasible alternative sources of supply existed to complete the work.
- 5.4 Certain of the Company's suppliers are sole suppliers of a particular product or service, such as sole freight carriers on a certain route with no reasonable alternatives available or sole suppliers of certain raw materials used in the production process. Some of these suppliers are also heavily reliant on the Company's business for their own continued operations, to the extent that without payments from the Company, there was concern that certain suppliers would be unable to continue providing goods and services needed by the Company for its continuing operations. In some of these instances, the Company considered (and the Monitor agreed) that payments should be made to these suppliers as part of the CCAA Restructuring Cost Payments, to maintain regular cost-effective operations.

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- 5.5 A limited amount of insurance policy arrears existed at the Order Date. Most of these arose from insurance premium financing used by the Company, whereby a portion of the premiums paid related to pre-filing periods. Continued insurance coverage for the Company was necessary as part of continuing normal operations, and was also a condition of the DIP Facility.
- 5.6 The amount for pre-filing payments to professionals that have been reported as CCAA Restructuring Costs comprises amounts owing for pre-filing work performed by the Company's counsel, the Monitor and its counsel, as well as legal and financial advisors to a number of the stakeholders in these proceedings, including the 2016 Noteholders and the cross-holder group of 2016 and 2014 Noteholders. Post-filing costs have been forecasted and reported as "Restructuring Professional Fees" in the Company's cash flow forecasts.

6. FURTHER CCAA RESTRUCTURING COSTS

- 6.1 The Monitor has considered the CCAA Restructuring Cost Payments made to date, and the further payments that the Company may need to make through the balance of the CCAA proceedings. These are summarized in the table below:

	<u>\$</u>
CCAA Restructuring Costs in initial forecast	23,000,000
Payments made to April 20, 2012	<u>(8,919,165)</u>
Subtotal	14,080,835
Further committed payments	(1,776,536)
Current anticipated payments	<u>(1,297,148)</u>
Net funds available from CCAA Restructuring Costs provision	<u>11,007,151</u>

- 6.2 Of the \$23.0 million of CCAA Restructuring Costs included in the original forecast, \$8.9 million of payments had been made up to April 20, 2012, so only \$14.1 million remains unpaid. This available amount corresponds to the amount set-out in Appendix B of the Monitor's Tenth Report, in the line item at the bottom of the schedule labeled "Provision for Unspent CCAA Restructuring Costs", totaling \$14.6 million as at March 31, 2012.

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- 6.3 As of April 20, 2012, a further \$1.8 million of payments had been approved but not yet made. The timing delay was due in part to the agreed phasing of some of these payments with suppliers. At least \$1.1 million of these payments are expected to be made by the end of April.
- 6.4 The Company has informed the Monitor of a further \$1.3 million of CCAA Restructuring Cost Payments for which it intends to seek the Monitor's approval. These consist of a mix of pre-filing costs for Key Suppliers that the Company considers are necessary in order to maintain continued normal operations, as well as amounts for pre-filing builders' and storage lien claims that the Company has been seeking to resolve.
- 6.5 As illustrated above, a total of \$11.0 million of the CCAA Restructuring Costs provision remains unspent or undesignated by the Company. However, there are further anticipated funding requirements from this provision that the Company will continue to manage, including the following:
- 6.5.1 The Company is continuing to have discussions with those Critical Suppliers who had filed applications with the Court to vary or terminate the designation of Critical Suppliers (the "**Applicant Suppliers**") on mutually agreeable ways to address the Applicant Suppliers' concerns. This may require some payment of CCAA Restructuring Costs; and
- 6.5.2 The Monitor anticipates that the Company will make further requests for CCAA Restructuring Cost Payments as part of managing its ongoing operations, including as part of agreements with suppliers on extending credit terms going forward. The Monitor has not considered whether these payments would actually be necessary, or whether it would approve such payments.
- 6.6 Further, while there is an unspent amount of CCAA Restructuring Costs, the Company has also had higher liquidity requirements due to the diminished credit terms realized during the proceedings, which may consume some or all of this amount.

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This report is respectfully submitted this 27th day of April, 2012.

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



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

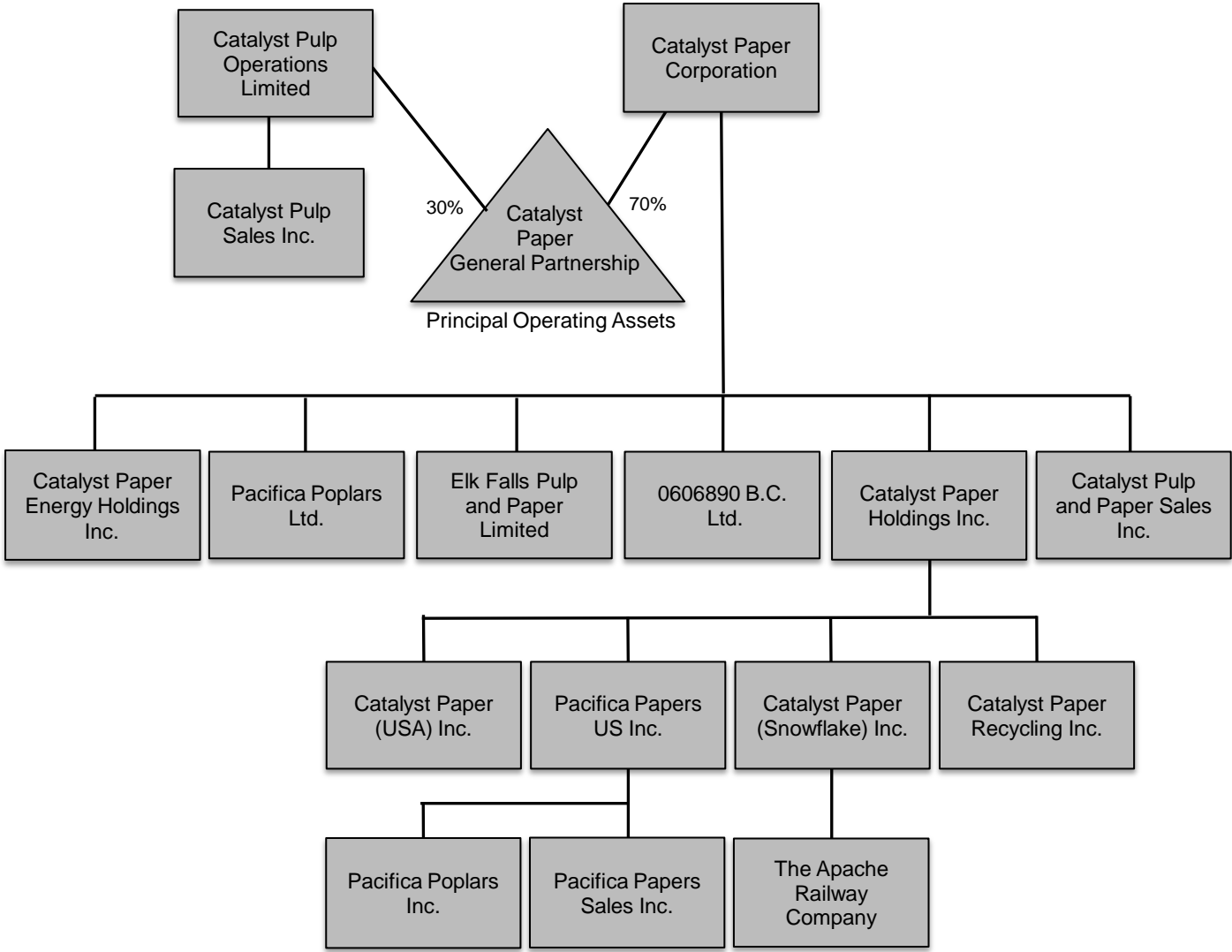


**Mica Arlette, CA, CIRP
Senior Vice President**

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.