

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 FIFTEENTH REPORT TO COURT**

**May 15, 2012**



**CATALYST PAPER CORPORATION, ET AL  
MONITOR’S FIFTEENTH REPORT TO COURT**

**May 15, 2012**

**TABLE OF CONTENTS**

<b>1.</b>	<b>INTRODUCTION .....</b>	<b>1</b>
<b>2.</b>	<b>BACKGROUND.....</b>	<b>2</b>
<b>3.</b>	<b>COMPANY OVERVIEW .....</b>	<b>2</b>
<b>4.</b>	<b>POST-FILING OPERATIONS .....</b>	<b>9</b>
<b>5.</b>	<b>SUMMARY OF CLAIMS .....</b>	<b>11</b>
<b>6.</b>	<b>THE AMENDED PLAN.....</b>	<b>12</b>
<b>7.</b>	<b>THE SALE AND INVESTOR SOLICITATION PROCESS .....</b>	<b>18</b>
<b>8.</b>	<b>MONITOR’S ASSESSMENT OF THE AMENDED PLAN .....</b>	<b>22</b>
<b>9.</b>	<b>MONITOR’S CONCLUSION ON THE AMENDED PLAN .....</b>	<b>29</b>

**APPENDICES**

- A.     Petitioner Parties Organization Chart**
- B.     Index of Defined Terms**

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

May 15, 2012

## 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 June 30, 2012.
- 1.3 This is the Monitor's 15<sup>th</sup> Report to Court. The Company filed its Plan of Compromise and Arrangement on March 22, 2012 (the "**Plan**") and on May 15, 2012 concluded the terms of an Amended Plan of Compromise and Arrangement (the "**Amended Plan**"). The purpose of this report is to advise the Court of the Monitor's analysis and conclusions regarding the reasonableness and fairness of the Company's Amended Plan.
- 1.4 This report contains numerous capitalized terms, some of which are defined herein. To assist the reader, an index of the defined terms used in this report is attached as Appendix B.
- 1.5 Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

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

May 15, 2012

## 2. BACKGROUND

- 2.1 The facts surrounding the Company's application for the Initial Order were set out in the Petition filed by Catalyst in the CCAA proceedings on January 31, 2012. The facts and details surrounding the Plan are set out in the Company's Information Circular dated March 23, 2012 (the "**Information Circular**"). Additional background information on the Plan has been discussed in the Monitor's 5<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> Reports. All of these documents as well as the Amended Plan can be found on the Monitor's website at:

[www.pwc.com/car-catalystpaper](http://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 United States Bankruptcy Court for the District of Delaware (the "**US Court**") has recognized 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 Chapter 15 proceedings in the US Court.

## 3. COMPANY OVERVIEW

- 3.1 To assist readers in understanding and evaluating the Amended Plan, the Monitor has summarized and reproduced some previously reported background information about the Company. While this information will be known to certain parties, the Monitor understands that other parties will be reviewing material for the first time in these proceedings. Accordingly, this section provides an overview of the Company's overall operations and its financial position.

### *General Operations and Corporate Structure*

- 3.2 Catalyst Paper Corporation is the ultimate parent of 28 direct and indirect subsidiaries. Appendix A illustrates the corporate structure and specifically identifies which Catalyst companies are Petitioners, or otherwise parties to the CCAA proceedings.

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

**May 15, 2012**

- 3.3 Catalyst Paper Corporation is a public company and its shares were previously traded on the Toronto Stock Exchange (“TSX”). On March 8, 2012, the shares of Catalyst Paper Corporation were delisted from the TSX.
- 3.4 The Company produces printing paper and pulp for customers located in North America, Latin America, the Pacific Rim and Europe. The Company owns three mills in Canada (located in Powell River, B.C., Port Alberni, B.C. and Crofton, B.C.) and one in the United States (located in Snowflake, Arizona). The Company’s head office is located in Richmond, B.C. It has a regional administration office in Nanaimo, B.C. and it operates a distribution and warehouse centre located in Surrey, B.C.
- 3.5 The Company employs approximately 2,100 people, of which approximately 1,600 are subject to collective agreements. Approximately 300 employees are located in the United States, while the remainder are located in Canada. The Company also funds pension obligations and post retirement benefit plans that support approximately 3,200 retirees.

## ***Historical operating results and reasons for financial difficulty***

- 3.6 Since 2006, the Company’s gross revenues and EBITDA have steadily decreased as a result of reduced global demand for paper products. Sales in 2006 totaled \$1.9 billion and EBITDA was \$138.7 million, as compared to 2011 sales of \$1.3 billion and EBITDA of \$47.5 million. Over that time there has been a 33% reduction in sales and a 66% reduction in EBITDA.
- 3.7 The following table illustrates the Company’s operating results for each of the last three fiscal years ended December 31 based on the Company’s audited financial statements:

(In millions of Canadian dollars)	2009	2010	2011
Sales	1,223.5	1,228.6	1,261.5
EBITDA before restructuring costs	141.1	71.6	47.5
Restructuring costs	17.9	25.3	5.9
Asset impairment charges	17.4	294.5	823.6
Net earnings (loss)	(5.6)	(398.2)	(976.6)
(In thousands of tonnes)			
Sales			
Specialty Printing Papers	897.0	867.0	879.0
Newsprint	488.0	491.0	452.0
Pulp	110.0	277.0	308.0
	1,495.0	1,635.0	1,639.0

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

**May 15, 2012**

- 3.8 EBITDA before restructuring costs has declined \$93.6 million during the past two years with the most significant factor being the strengthening Canadian dollar relative to the U.S. dollar. As the majority of the Company's sales are denominated in U.S. dollars, the currency movement reduced the amount of those sales in Canadian dollars during this timeframe. This accounted for decreases in EBITDA in 2010 and 2011 of \$49 million and \$41 million, respectively.
- 3.9 Other factors that have impacted the Company's EBITDA include the following:
- 3.9.1 There has been a reduction in the prices for certain finished goods. The price of various paper products has fallen between 11% and 42% (depending on the product) since the beginning of 2009, with some benefit realized from an 11% increase in pulp prices. The impact of weaker prices has been partially offset by increased sales volumes that the Company secured by growing its market share in a shrinking market.
- 3.9.2 Raw material input prices have increased, particularly fibre costs due to decreased overall supply.
- 3.10 The Company's net losses incurred in 2010 and 2011 were primarily due to asset impairment charges resulting from writing down the value of certain assets. In 2010, the Company wrote down the value of its Elk Falls mill in light of its decision to close the operation. In 2011, the Company wrote down the value of its remaining pulp and paper assets to reflect the estimated present value of future cash flows that these assets were expected to generate in light of current market assessments for pulp and paper and for the Canadian dollar relative to the U.S. dollar.
- 3.11 Ultimately, as a result of the industry and market challenges set out above, the Company was no longer able to afford the interest costs on the significant amount of debt owing by the Company, which is illustrated on the Company's balance sheets presented below.

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

**May 15, 2012**

## *Summary of Catalyst's financial position*

- 3.12 The following table summarizes the Company's balance sheets on a consolidated basis for each of the last three fiscal years ending December 31, based on the Company's audited financial statements:

(In millions of Canadian dollars)	2009	2010	2011
<b>Assets</b>			
Current Assets			
Cash and cash equivalent	83.1	95.4	25.1
Accounts Receivable	101.5	120.6	134.9
Inventories	178.3	139.9	146.9
Prepays and other	25.2	27.7	20.0
	388.1	383.6	326.9
Property, plant and equipment	1,664.7	1,285.6	386.3
Other assets	38.0	27.0	24.4
<b>Total Assets</b>	<b>2,090.8</b>	<b>1,696.2</b>	<b>737.6</b>
<b>Liabilities</b>			
Accounts Payable and Accrued Liabilities	162.5	160.5	141.3
Revolving Asset-based Loan	14.5		48.0
Noteholder Debt and Accrued Interest	647.8	698.0	704.5
Employee Future Benefits	294.6	269.1	305.7
Other Long-term Obligations	175.8	165.2	155.4
<b>Total Liabilities</b>	<b>1,295.2</b>	<b>1,292.8</b>	<b>1,354.9</b>
<b>Total Shareholders' Equity</b>	<b>795.6</b>	<b>403.4</b>	<b>(617.3)</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,090.8</b>	<b>1,696.2</b>	<b>737.6</b>

- 3.13 The decline in the Company's cash position from year end 2010 to year end 2011 was a result of net losses and the retraction of trade credit in December 2011. The reduction in trade credit was largely in response to the Company's decision to defer a December 15, 2011 interest payment due to the 2016 Noteholders.
- 3.14 As noted above, the Company's declining profitability over the past several years has resulted in significant write downs to the value of Catalyst's property, plant and equipment, which consist primarily of the Company's mill assets.
- 3.15 The Company supports retired employees through a combination of pension benefits and post-retirement benefits that include the payment of certain health plans and pension bridging benefits for employees who take early retirement. An estimate of the current liabilities of the Company in respect of these plans, based on certain interest rate and

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

May 15, 2012

return on asset assumptions, is reflected in the above table as “Employee Future Benefits”.

## ***Restructuring Activities Undertaken – prior to the CCAA filing***

- 3.16 The Company has undertaken a number of steps over the past several years to restructure its operations to improve profitability. Key steps have included:
  - 3.16.1 Reducing fixed and operational costs for all mills;
  - 3.16.2 Reducing corporate staff and salaried employee benefits;
  - 3.16.3 Negotiating the new collective agreements with the unions for its Canadian mill employees;
  - 3.16.4 Closing the Elk Falls mill in July 2010 after curtailing its production in February 2009; and
  - 3.16.5 Closing the Paper Recycling Division (“PRD”) facility located in Coquitlam, B.C. in July 2010.
- 3.17 Despite taking these steps, the Company’s profitability continued to decline over the years preceding the CCAA proceedings, ultimately leading to liquidity constraints.
- 3.18 On May 31, 2011, the Company extended and amended its revolving asset-based lending (“ABL”) facility in order to, among other things, address the reduced working capital levels resulting from the closure of the Elk Falls and PRD facilities and remove the fixed assets of the Snowflake mill from the borrowing base. This reduced the size of the facility from \$330 million to \$175 million. The Snowflake mill assets became part of the 2016 Noteholder Security.
- 3.19 The Company announced in June 2011 that it was reviewing alternatives to address its capital structure, with the goal of improving its balance sheet. Among other things, it reviewed options with respect to the 2014 Notes and 2016 Notes, and held ongoing discussions with certain holders of these notes and their representatives.



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

May 15, 2012

- 3.20 During the course of these discussions, the Company concluded that it would be unable to meet its debt servicing requirements, and on December 15, 2011, it deferred an interest payment on the 2016 Notes.
- 3.21 The Company reached a conditional restructuring support agreement (the “**Initial RSA**”) with representatives of certain of each of the 2014 Noteholders and 2016 Noteholders (collectively, the “**Initial Supporting Noteholders**”), pursuant to which the Noteholders would compromise their debt in exchange for equity in Catalyst Paper Corporation. This led to the Company filing a Petition with the Court on January 17, 2012 pursuant to the *Canada Business Corporations Act*, in contemplation of implementing a plan of arrangement with its creditors and shareholders under that Act (the “**CBCA Plan**”).
- 3.22 Despite significant Noteholder support for the CBCA Plan, the Company was not able to meet the conditions precedent set forth in the Initial RSA in order to move forward with the CBCA Plan, and on January 31, 2012, the Company sought and obtained the Initial Order in these CCAA proceedings.

## ***Restructuring Activities Undertaken – during the CCAA proceedings***

- 3.23 The following restructuring activities have been undertaken during the course of the CCAA proceedings:
- 3.23.1 In accordance with the provisions of the CCAA, the Company disclaimed the real property lease of the PRD premises, and sold the scrap metal located at those premises prior to vacating the facility;
- 3.23.2 Agreements were reached to sell certain of the Company’s poplar farms which were considered redundant to the Company’s operations. Other redundant assets continue to be marketed;
- 3.23.3 The Company entered into an agreement with a scrap metal dealer to remove and sell the equipment located at the Elk Falls mill;
- 3.23.4 The Company has had a number of discussions with the local municipalities, including the Municipality of North Cowichan and the City of Powell River, to seek reductions and/or greater certainty about the level of property taxes levied on industrial land. Those discussions have resulted in future savings;

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

May 15, 2012

- 3.23.5 The Company has negotiated the sale of its interests in PRSC Land Development Inc., PRSC Limited Partnership and 0606890 B.C. Ltd., and a related mortgage (collectively, "**PRSC**"); and,
- 3.23.6 New collective agreements (the "**New Labour Contracts**") were negotiated with the Communications, Energy and Paperworkers' Union of Canada (the "**CEP**") and the Pulp, Paper and Woodworkers of Canada (the "**PPWC**"), the unions that represent the Company's unionized workforce at its three British Columbia mills.
- 3.24 On March 11, 2012, the Company entered into an updated conditional restructuring support agreement (the "**Revised RSA**") with representatives of the Initial Supporting Noteholders, pursuant to which the 2016 and 2014 Noteholders would compromise their debt pursuant to a plan of arrangement to be filed in the CCAA proceedings. The Revised RSA was, in most material respects, the same as the Initial RSA, except that the claims of General Unsecured Creditors were included in the pool of creditor claims to be compromised.
- 3.25 On March 22, 2012, the Company filed the Plan, which reflected the terms of the Revised RSA. The Company also obtained Court approval of a sale and investor solicitation process (the "**SISP**"), to be commenced immediately if the Plan was not approved by the creditors or the Court (either such event being a "**Plan Failure**"). In accordance with the SISP, the Court authorized and directed Catalyst and CP Acquisition, LLC (the "**Stalking Horse Purchaser**"), a company nominated by the 2016 Noteholders, to enter into a form of stalking horse purchase agreement (the "**SHPA**") pursuant to which the Stalking Horse Purchaser would acquire substantially all of the assets of Catalyst, largely by way of credit bid.
- 3.26 The Amended Plan reflects several changes to the Company's post-emergence capital structure and the distribution to Creditors, and was the result of extensive discussions between the Company, the Initial Supporting Noteholders, and the Monitor.
- 3.27 The Amended Plan, the SISP and the SHPA are discussed in more detail later in this report.

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

May 15, 2012

## 4. POST-FILING OPERATIONS

- 4.1 Based on the Monitor's observations of the Company's post-filing operations, as summarized below, the CCAA filing and the Company's restructuring process appear to have had little impact on the Company's operations. Operating results during the first quarter are in line with the Company's business plan, and operations have generally continued as expected while the Company seeks to implement a restructuring plan. The Company released its first quarter financial results on May 10, 2012, which showed positive EBITDA from operations (before restructuring charges) of \$23.3 million for the period which is consistent with the Company's business plan.

### *Operations*

- 4.2 The Company's four mills (Crofton, Port Alberni, Powell River and Snowflake) have operated normally since the date of filing. The Company's production for the first quarter was close to plan. In addition, the Company benefited from lower than forecast raw material input costs during the first quarter compared to its business plan.
- 4.3 Overall, the Company maintained its planned production levels; however, it adjusted production between paper and pulp to respond to market dynamics. As a result of weaker demand for one of the Company's paper products, the Company elected to take a six-day unscheduled production curtailment in February 2012 to reduce production and prevent a build-up of certain paper inventories. Pulp pricing, however, was attractive, so the Company deferred several non-critical maintenance and capital projects that were originally scheduled for Q1 2012 to later in 2012 to boost pulp production.
- 4.4 The Company's two capital projects funded by the federal Pulp and Paper Green Transformation Program were completed in December 2011 and were implemented ahead of schedule and on budget. The project is estimated to provide the Company with annualized power consumption reductions, leading to estimated annual cost savings of approximately \$5 million.

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

**May 15, 2012**

## ***Sales & Market***

- 4.5 Overall, sales volumes were close to plan for the quarter, which suggests that, for the first quarter, there was minimal, if any, impact on the Company's customer base as a result of the CCAA filing. Historically, the first quarter of the year has the weakest seasonal demand and this is reflected in the Company's annual plan.
- 4.6 Pricing for the quarter remained near projected levels for most of the Company's products. The exception was certain paper products where demand weakened. As previously stated, the Company took downtime to alleviate the impact of the reduced demand and prevent a build-up of paper inventories.

## ***Personnel***

- 4.7 Two of the Company's directors, Denis Jean and Benjamin Duster, resigned in February and March 2012, respectively. Benjamin Duster was replaced as the Chair of the Board by Jeffery Marshall. The Monitor is informed that the reduction in the number of directors to eight has not created any governance issues. There have been no changes in the Company's executive management team since the date of the Initial Order.
- 4.8 The Company replaced the general manager at one of its divisions shortly after the Initial Order was obtained. In addition, there has been a slight increase in the number of departures at various staff levels including operations management and administration personnel compared to the past two years. There has been no major adverse impact on production or operations as a result of any of the departures.

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

**May 15, 2012**

## 5. SUMMARY OF CLAIMS

- 5.1 The table below summarizes the profile of claims that are expected to be eligible to vote at the creditor meetings on May 23, 2012. The Claims are presented on a consolidated basis for the Company as the Amended Plan has been filed on a substantively consolidated basis for voting and distribution purposes.

	Disputed Claims		Admitted Claims		Total Voting Claims	
(in millions of \$USD)	(\$)	(#)	(\$)	(#)	(\$)	(#)
First Lien Notes (2016 Noteholders)	-	-	433.7	152	433.7	152
Other Secured Creditors	-	-	-	-	-	-
<b>Total Secured Claims</b>	-	-	<b>433.7</b>	<b>152</b>	<b>433.7</b>	<b>152</b>
Unsecured Notes (2014 Noteholders)	-	-	263.2	632	263.2	632
Pension Creditors	115.4	2	-	-	115.4	2
Employee / Union Claims	102.0	7	-	1	102.0	8
Restructuring Claims	-	-	17.5	1	17.5	1
D & O Claims	-	-	-	-	-	-
Trade Creditors						
> \$50,000	3.6	3	28.3	114	31.9	117
\$10,001 to \$50,000	0.1	2	4.2	167	4.3	169
<= \$10,000	0.0	3	0.9	303	0.9	306
	3.7	8	33.5	584	37.1	592
<b>Total Unsecured Claims</b>	<b>221.2</b>	<b>17</b>	<b>314.2</b>	<b>1,218</b>	<b>535.4</b>	<b>1,235</b>
<b>Total Claims</b>	<b>221.2</b>	<b>17</b>	<b>747.9</b>	<b>1,370</b>	<b>969.0</b>	<b>1,387</b>

- 5.2 28 claims (of which 17 were disallowed in full) representing approximately \$221 million are in dispute. Votes for these claims will be recorded and reported on in the Monitor's report to be filed in advance of the Sanction Hearing as it is not anticipated that these claims will be resolved prior to the date of the Sanction Hearing

- 5.3 The Monitor has the following comments with respect to specific Claims:

- 5.3.1 The claims of the 2014 Noteholders and 2016 Noteholders include the accrued interest and principal up to the date of the creditor meetings previously scheduled for May 15, 2012. The number of claims shown in the table above represents an estimate of the number of separate accounts holding these notes. Until the Noteholders submit their proxies (which are due one day before the creditor meetings) it will not be known how many of the Noteholders actually vote on the Plan.
- 5.3.2 Two claims were received for the estimated \$115 million Salaried Pension Plan deficit, one each from counsel representing various members of the Salaried Pension Plan. Counsel for the Catalyst Timberwest Retired Salaried Employees Association has withdrawn its claim on the basis that the claim is an Unaffected Claim under the Plan, and on the express understanding that it would not in any

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

May 15, 2012

way be prejudiced by doing so. The Monitor has disallowed the claim filed by counsel for the Catalyst Salaried Employees and Pensioners Steering Committee (“CSE&P”) on the basis that the claim is an Unaffected Claim under the Plan. Counsel for CSE&P subsequently filed a Notice of Dispute.

- 5.3.3 Additional pension claims were received from the US Pension Benefit Guaranty Corporation and the Ontario Pension Benefit Guaranty Fund (“OPBGF”) in respect of potential liabilities from the Snowflake Hourly Pension Plan and the Salaried Pension Plan, respectively, that would be crystallized in the event that the plans were discontinued. The Monitor considers these claims to be Unaffected Claims under the Amended Plan and has disallowed them. The OPBGF has filed a Notice of Dispute in response.
- 5.3.4 The PPWC and the CEP have filed claims, which together total approximately \$102 million. The claims represent estimates of the cost savings the Company will realize over the period of the New Labour Contracts. Notices of Disallowance have been issued and the PPWC and the CEP have filed Notices of Dispute.
- 5.3.5 The Restructuring Claim represents a claim for the unexpired term of the lease for the PRD premises which the Company disclaimed during the CCAA proceedings. The landlord has accepted a revised claim amount of \$17.5 million.
- 5.3.6 Approximately 83% of the estimated trade creditors (by value) have filed claims totaling \$39.1 million.
- 5.3.7 76 creditors with claims valued at approximately \$2.6 million, in total, have filed as Cash Election Creditors. This election reduces their claims to \$10,000 for distribution purposes and permits them to receive a share of the cash available to the General Unsecured Cash Creditors.

## 6. THE AMENDED PLAN

- 6.1 On March 22, 2012, the Court authorized the Company to file the Plan and established the process by which the Plan would be presented to the Company’s creditors for their consideration. On May 15, 2012, the Company finalized the Amended Plan for distribution to the Creditors.
- 6.2 The Amended Plan incorporates several changes to the Plan originally described in the Monitor’s 5<sup>th</sup> Report. To assist in the assessment of the Amended Plan, a summary of the key elements of the Amended Plan is presented in this report for information purposes only. The Monitor notes that there are aspects of the Amended Plan that are detailed and complex. Anyone interested in a more detailed description of the Plan, including the

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

May 15, 2012

transactions and compromises contemplated thereby, are referred to the Information Circular prepared by Company management and circulated to all creditors with the Plan, and to the Amended Plan posted on the Monitor's website. Following is a summary of the terms of the Amended Plan. In the event that there is any inconsistency between the terms of the Amended Plan and the summary, or any other information, contained in this Report, the Amended Plan will govern.

- 6.3 The principal changes to the Plan as reflected in the Amended Plan are as follows:
- 6.3.1 The principal amount of the New First Lien Notes has been reduced from US\$325 million to US\$250 million, and there is no provision for the creation of New First Lien Coupon Notes, which were to have a principal amount of approximately US\$45 million. The result of the foregoing is that the first-lien indebtedness of the Company post-emergence will be reduced by approximately \$120 million.
  - 6.3.2 The Company will use commercially reasonable efforts to sell all of its rights, title and interest in Powell River Energy Inc., Powell River Energy Limited Partnership and certain related indebtedness (collectively, the "**PREI Interest**"). 50% of the net proceeds from this sale ("**PREI Proceeds Pool**") is to be distributed to the Unsecured Creditors (excluding Convenience Creditors, Cash Election Creditors or those creditors making an Equity Election); and
  - 6.3.3 All of the equity in the Company at emergence (in the form of the New Common Shares) is to be distributed to the First Lien Noteholders. This is subject to dilution by those Unsecured Creditors, other than Cash Election Creditors, who elect to receive their *pro rata* share of up to 4% of the New Common Shares instead of their share of the PREI Proceeds Pool ("**Equity Election Creditors**"). Dilution may also result from any New Common Shares issued under any Management Incentive Plans.
- 6.4 The aforementioned points address a number of issues with the Plan that were identified by the Monitor with respect to the amount of consideration being given to Unsecured Creditors and the post-emergence capital structure of the Company.
- 6.5 The PREI Interest is to be sold following Creditor and Court approval of the Amended Plan, and as such the total amount of the PREI Proceeds Pool is not certain. In the Monitor's 9<sup>th</sup> Report, the Monitor estimated the value of the PREI Interest to be in the range of \$26.0 million to \$37.2 million. If realized at the midpoint, the PREI Interest would generate sale proceeds of approximately \$31.6 million and, accordingly, the PREI Proceeds Pool would be \$15.8 million.

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

**May 15, 2012**

- 6.6 Generally, the Amended Plan is intended to effect a recapitalization of the Company's secured debt and a compromise of all unsecured Pre-Commencement Claims (i.e. claims arising before January 31, 2012) and Restructuring Claims (except for Unaffected Claims), as well as the cancellation of all existing equity interests in the Company.
- 6.7 The Amended Plan contemplates that the Company will continue its current operations and continue to meet its employment and pension obligations in the ordinary course.

## ***Statutory Requirements***

- 6.8 The Amended Plan meets the criteria outlined in Section 6 of the CCAA.
- 6.9 The Amended Plan does not exclude the applicability of Section 38 and Sections 95 to 101 of the *Bankruptcy and Insolvency Act* regarding preference transactions and transfers at undervalue. The Monitor has conducted a review for possible preference transactions or transfers at undervalue and is not aware of any such potential claims.

## ***Consolidated Plan***

- 6.10 The Amended 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 and the assets of each of the Catalyst entities are treated as assets of all entities. As a result, Affected Creditors under the Amended Plan will have one consolidated Claim for voting and distribution purposes in an amount equal to the sum of each of their non-duplicative claims against each of the Catalyst entities.
- 6.11 No party has contested the filing of the Amended Plan on a substantively consolidated basis, and from its own consideration of the issue the Monitor sees no reason to conclude that doing so is inappropriate.

## ***Creditor classes***

- 6.12 The Affected Claims under the Amended Plan consist of:
- 6.12.1 Claims that arose prior to the CCAA proceedings;



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

May 15, 2012

- 6.12.2 Restructuring Claims, being those arising out of the restructuring, disclaimer, termination, or breach of any contract or agreement with the Company after the commencement of the CCAA proceedings; and
  - 6.12.3 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**”).
- 6.13 There are two classes of Affected Creditors under the Amended Plan:
- 6.13.1 The First Lien Notes Claims Class, comprising the 2016 Noteholders; and
  - 6.13.2 The Unsecured Claims Class, consisting of:
    - 6.13.2.1 The 2014 Noteholders; and
    - 6.13.2.2 General Unsecured Creditors, being the holders of all pre-Commencement Date, unsecured, non-priority Claims against the Company and the holders of any Restructuring Claims.
- 6.14 The Amended Plan does not affect or compromise the Claims or rights of Unaffected Creditors. The Unaffected Claims include, among others, the following:
- 6.14.1 Post-filing creditors, other than creditors having Restructuring Claims;
  - 6.14.2 Claims secured by the CCAA Charges;
  - 6.14.3 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;
  - 6.14.4 Any Claim of employees of the Company employed as of the date of the Initial Order, but only in respect of claims for wages, including vacation pay and banked time; and
  - 6.14.5 Any Claim secured by a Lien other than the First Lien Notes Claims.
- 6.15 The Monitor also notes that the Amended Plan does not compromise any Claim relating to the unfunded portion of the various pension plans or post-retirement benefit plans as the Company intends to continue to fund these plans from future operations.

**CATALYST PAPER CORPORATION, ET AL  
MONITOR’S FIFTEENTH REPORT TO COURT**

**May 15, 2012**

***Consideration available for distribution***

- 6.16 The Amended Plan contemplates the distribution of the following consideration to the Affected Creditors:
- 6.16.1 New First Lien Notes, in the principal sum of US\$250 million, with security consisting of all collateral currently securing the 2016 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% paid-in-kind (“**PIK**”). The New First Lien Notes shall mature on October 31, 2017;
  - 6.16.2 Up to 15,000,000 New Common Shares to be issued on, or as soon as reasonably practicable after, the Effective Date, subject to dilution only from New Common Shares issued under any Management Incentive Plan;
  - 6.16.3 The PREI Proceeds Pool, as discussed above; and
  - 6.16.4 Up to \$2.5 million in cash, payable to General Unsecured Cash Creditors as discussed below.

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

**May 15, 2012**

## ***Distribution of the Consideration to Affected Creditors***

6.17 The table below summarizes the proposed distributions under the Amended Plan:

Class	Estimated claims	Plan Distribution	Plan value of Distribution
(1) First Lien Notes Claims Class	US\$433.7 million	New First Lien Notes	US\$250 million
		100% of New Common Shares (subject to dilution by Equity Election Creditors)	Not identified
(2) Unsecured Claims Class			
(a) 2014 Noteholders and General Unsecured Creditors	2014 Noteholders: US\$263.2 million  General Unsecured Creditors:US\$154 million	PREI Proceeds Pool or up to 4% of the New Common Shares subject to Equity Elections made	Unknown at present, estimated at \$15.8 million
(b) General Unsecured Cash Creditors (Claims of \$10,000 or less)	Convenience Claims estimated at US\$0.8 million plus Cash Election Creditors totalling US\$2.6 million	Convenience Cash Pool (plus share of PREI Proceeds Pool for any excess claims above the maximum Convenience Cash Pool)	\$2.5 million

6.18 In essence:

- 6.18.1 The 2016 Noteholders will receive the New First Lien Notes having a cumulative face value of US\$250 million, as well as a total of 14,400,000 New Common Shares which, subject to any Equity Elections made by the 2014 Noteholders and the General Unsecured Creditors, would represent 100% of common equity post-emergence;
- 6.18.2 The 2014 Noteholders and the General Unsecured Creditors with larger claims will receive their pro rata share of the PREI Proceeds Pool, adjusted for those who make Equity Elections to share in up to 600,000 of the New Common Shares (or 4% of equity post-emergence); and
- 6.18.3 The Unsecured Creditors with smaller claims (i.e. those who meet the definition of Convenience Creditors or Cash Election Creditors) will receive cash equivalent to 50% of their Affected Claims up to a maximum of \$2.5 million. Based on the present amounts of admitted claims of Convenience Creditors and Cash Election Creditors, the actual cash payments under the Amended Plan would be less than \$0.8 million.

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

**May 15, 2012**

## ***Conditions of Plan Implementation***

- 6.19 The implementation of the Amended Plan is conditional upon a number of conditions precedent. The key conditions are as follows:
- 6.19.1 The New Labour Contracts remain effective and PPWC and CEP continue to abide by the terms thereof;
  - 6.19.2 A new ABL facility shall be secured to replace the DIP Facility. The Company is in continuing discussions with several parties to seek this exit financing; and
  - 6.19.3 The letters of credit posted as collateral for the KERP shall have been cancelled and all cash collateral with respect to the letters of credit returned to the Company. In addition, the KERP shall have been modified and a Court order obtained approving such modification. The replacement of the cash collateral with the KERP Charge has been delayed in light of an appeal of the KERP Charge provisions of the Amended and Restated Initial Order by counsel representing certain members of the Salaried Pension Plan. There is no certainty as to when those appeal proceedings will be concluded.

## **7. THE SALE AND INVESTOR SOLICITATION PROCESS**

- 7.1 On March 22, 2012, the Court approved the SISP, a process intended to facilitate a sale of the Company or its assets in the event of a Plan Failure.
- 7.2 In accordance with the SISP, the Company has been authorized and directed to enter into the SHPA with the Stalking Horse Purchaser. The form of the SHPA was approved by the Court on April 5, 2012, and it is to be executed upon Plan Failure and the commencement of the SISP.
- 7.3 The SISP is a phased sales process that culminates in the sale of substantially all of the Company's assets to the Stalking Horse Purchaser pursuant to the SHPA, or, in the event one or more other potential purchasers submit offers for some or all of those assets that are superior to the SHPA, an auction amongst such "Qualified Bidders" within 73 days following the date of Plan Failure. The SISP timeline facilitates a relatively quick sale of the Company's assets. This sales process would be shortened in the event that no potential purchasers submit a bid that is superior to the SHPA.

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

May 15, 2012

- 7.4 The SHPA was discussed in the Monitor's 8<sup>th</sup> Report to the Court dated April 1, 2016, and the key terms are summarized below:
- 7.4.1 The Stalking Horse Purchaser will acquire all of the Company's assets, including cash and cash equivalents, on an "as is, where is" basis, but excluding certain Excluded Assets;
  - 7.4.2 The details of the Excluded Assets will be finalized upon execution of the SHPA but the main Excluded Assets will include:
    - 7.4.2.1 The PREI Interest;
    - 7.4.2.2 PRSC;
    - 7.4.2.3 The Elk Falls mill assets; and
    - 7.4.2.4 The poplar farms located in B.C. and Washington State.
  - 7.4.3 The purchase price for the Company's assets will be \$275 million, which will be payable as follows:
    - 7.4.3.1 Cash or the assumption of liabilities for: 1) claims that rank in priority to the 2016 Noteholder Security, 2) post filing liabilities on hand at closing, 3) cure costs on contracts, and 4) any assets not subject to the 2016 Noteholder Security (the "**Unencumbered Assets**") that are being purchased pursuant to the SHPA; and
    - 7.4.3.2 A credit bid of a portion of the 2016 Noteholders' secured claim for the remainder of the purchase price.
  - 7.4.4 The Stalking Horse Purchaser is entitled to re-imbursement of professional fees and expenses incurred in relation to the SHPA in an amount up to \$1 million in the event that the Company terminates the SHPA or the Court approves a superior offer for the Company's assets.
- 7.5 The SISP is an alternate approach to restructuring the Company's capital structure while continuing normal operations in the event of a Plan Failure. As compared to the Amended Plan, the SISP has different implications for the various stakeholders. Under either the Amended Plan or the SISP, the ownership of the business will change. Under the SISP, either the Stalking Horse Purchaser (which is ultimately controlled by the 2016 Noteholders) or one or more third parties will acquire 100% of the Company's business.

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

**May 15, 2012**

- 7.6 The SISP provides a benchmark against which the Amended Plan can be evaluated in regards to the recovery to the Company's stakeholders.
- 7.7 The Monitor, in its 9<sup>th</sup> Report to the Court dated April 10, 2012, provided its estimate of the values of the Unencumbered Assets. A portion of the Poplar lands as well as PRSC will have been sold by the time the SISP becomes effective and the proceeds are expected to be used for general operations. The Monitor understood that the proceeds of any realization of the remaining Unencumbered Assets would be available for distribution to the Company's Unsecured Creditors or used by the Company to fund costs during the CCAA proceedings. For the purpose of the Monitor's assessment of the Amended Plan, it has been assumed that the estimated values of the remaining Unencumbered Assets would be realized either through the SISP or through separate realization processes in respect of the Unencumbered Assets not realized through the SISP.
- 7.8 The Unencumbered Assets to be purchased pursuant to the SHPA include the Surrey Distribution Centre and Barges, fibre supply agreements, the mobile equipment and the Port Alberni Water Lot Lease. The remaining Unencumbered Assets expected to be realized are as follows:
- 7.8.1 PREI Interest: The PREI Interest has been included as a parcel separate from the Company's core business assets such that this interest may be purchased separately as part of the SISP;
  - 7.8.2 PRSC: This interest is in the process of being sold and has been approved for sale by the Court;
  - 7.8.3 Elk Falls mill: The Company has engaged Schnitzer Steel B.C. Ltd. to salvage equipment from the Elk Falls mill over the course of the next three months. This agreement was approved by the Court on March 21, 2012. The Company is in discussions with a number of parties interested in the Elk Falls mill lands, but it is unclear whether there is any value to these lands; and
  - 7.8.4 Poplar lands: As reported in the Monitor's 9<sup>th</sup> Report to the Court dated April 10, 2012, the poplar farm lands have been listed for sale by the Company. Some of these lands are already subject to purchase and sale agreements but others continue to be marketed.

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

**May 15, 2012**

- 7.9 Assuming the SHPA closes, the effects of the SISP on the Company's main financial stakeholders are as follows:
- 7.9.1 2016 Noteholders – The 2016 Noteholders, through the Stalking Horse Purchaser, will own all of the Company's operating assets purchased pursuant to the SHPA free and clear of all encumbrances. The Monitor has not been provided with any information regarding the future capital structure of the Stalking Horse Purchaser, which would be at the discretion of the Stalking Horse Purchaser. As the proposed amount of the credit bid is significantly less than the amount owing to the 2016 Noteholders, they would have an unsecured claim for the deficiency.
- 7.9.2 Unsecured Creditors – the Unsecured Creditors will share in any cash distributions available from the realizations of the Unencumbered Assets. The Unsecured Creditors will include the 2014 Noteholders, the 2016 Noteholders for their deficiency claim, the General Unsecured Creditors and the Convenience Class Creditors.
- 7.9.3 Current Employees – The Stalking Horse Purchaser will assume the obligations under the New Labour Contracts negotiated with the PPWC and the CEP for the employees of the Canadian mills in addition to other collective bargaining agreements to be specified upon execution of the SHPA. Furthermore, active non-union employees will be offered employment on terms no less favourable in the aggregate than those currently in place. The Monitor notes that the SHPA indicates that the post-retirement benefits for the non-union employees will not be continued, but expects that other terms of employment for the non-union employees will be adjusted to compensate for the discontinuation of that plan. Overall, employees are expected to be no worse off under the SISP than the Plan.
- 7.9.4 Retired Employees – Retired employees who receive benefits based on the New Labour Contracts assumed by the Stalking Horse Purchaser are expected to receive benefits pursuant to those agreements. However, the Stalking Horse Purchaser is not assuming any obligations under the Salaried Pension Plan or the post retirement benefit programs for former salaried employees. Given that the Salaried Pension Plan has an estimated funding deficit of approximately \$115 million and the estimated funding deficit for the post retirement benefits is approximately \$32 million, the Salaried Pension Plan beneficiaries could be negatively affected by a sale pursuant to the SHPA compared to the Plan, depending on future events.
- 7.9.4.1 For the purposes of its analysis, the Monitor has assumed that the unfunded obligations in respect of the aforementioned plans are unsecured claims, and the plans would therefore share in the realizations from the Unencumbered Assets. The Monitor notes, however, that an application has been made to the Court by the Salaried Pension Plan beneficiaries for a declaration that the Company's assets, up to an

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

May 15, 2012

amount sufficient to satisfy the funding deficit, are deemed to be held in trust for the benefit of the Salaried Pension Plan beneficiaries. This could affect not only those beneficiaries' recoveries under the SISP, but also how the Stalking Horse Purchaser would proceed under the SHPA.

## 8. MONITOR'S ASSESSMENT OF THE AMENDED PLAN

- 8.1 The Amended Plan is the culmination of a consensual agreement among the Company and the Initial Supporting Noteholders. The Monitor recognizes that many months of negotiations, as well as considerable effort and thought, went into the creation of the Plan and the Amended Plan. Given the make-up of the parties to the Revised RSA, it is known that the Amended Plan is acceptable to the majority of the supporting 2016 Noteholders and certain of the 2014 Noteholders. The views of the remaining creditors are being sought through the vote on the Amended Plan.
- 8.2 The Plan was substantially similar to the CBCA Plan, which reflected the terms of the Initial RSA. However, unlike the CBCA Plan, the Plan contemplated the compromise of the claims of General Unsecured Creditors. The Amended Plan is substantially different from the Plan, and has been modified to address most of the concerns raised by the Monitor with respect to the Plan.
- 8.3 Section 3.23 of this report sets out the restructuring steps that have been taken by the Company to date in these proceedings, which the Monitor understands are only some of the steps that are being pursued by the Company. Additional restructuring steps are expected to continue prior to and potentially after emergence from the CCAA proceedings.

### *Estimated distributions under the Amended Plan compared to the SISP*

- 8.4 The distribution to Unsecured Creditors under the Amended Plan consists of either (i) their pro rata share of the PREI Proceeds Pool, or (ii) up to a maximum of \$2.5 million of cash to be distributed only to Convenience Creditors and Cash Election Creditors. The Convenience Creditors and Cash Election Creditors could receive up to 50% of their Claim; however, the Monitor notes that those Creditors make up only a small portion of the total Unsecured Creditors (less than \$4 million of voting Claims out of a total of \$414.6 million Unsecured Claims). For the balance of the Unsecured Creditors, their recovery consists of their *pro rata* share of the PREI Proceeds Pool.



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

**May 15, 2012**

- 8.5 Under the SISP, the proceeds from the sale of the Unencumbered Assets would create a pool of cash that would be available for distribution to creditors. However, the pool of Unsecured Creditors would also increase significantly under the SISP, as certain creditors who would be unaffected under the Amended Plan would have claims under the SISP.
- 8.6 In either scenario, the recovery to Unsecured Creditors is a function of the future sale proceeds received by the Company. For purposes of comparing these scenarios, the Monitor has used the estimated values of the Unencumbered Assets provided in its 9<sup>th</sup> Report, as modified for asset sales and other circumstances which have occurred or arisen in the intervening period. Specifically, the Company's interest in PRSC and the poplar lands has been excluded as these assets are in the process of being sold and the proceeds are expected to be used for working capital purposes.

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

**May 15, 2012**

- 8.7 The Monitor has compared the estimated cash distributions to Unsecured Creditors under the Amended Plan to the hypothetical cash distributions to Unsecured Creditors if the SHPA was completed and all of the Unencumbered Assets were sold either through the SHPA or a separate process, all based on the estimated values for the assets in the Monitor's 9<sup>th</sup> Report. This is illustrated in the summary below:

(\$ millions)	Amended Plan	SISP
<b>Estimated Proceeds for Distribution</b>		
Cash	-	- (1)
Sale of PREI	15.8	- (2)
Unencumbered Assets Acquired	-	19.9 (3)
Unencumbered Assets Not Acquired	-	31.6 (2)
<b>Total</b>	<b>15.8</b>	<b>51.5</b>
<b>Creditor Group</b>		
2014 Noteholders	263.2	263.2
2016 Noteholders Shortfall	-	155.0
Trade Creditor claims	28.4	31.8 (1)
Employee / Union Claims	102.1	102.1 (4)
Restructuring Claims	17.5	17.5
Environmental Claims	-	- (5)
Pension & PRB Claims	-	150.0 (6)
<b>Total</b>	<b>411.2</b>	<b>719.6</b>
<b>Value per \$ of Claim</b>	<b>\$ 0.038</b>	<b>\$ 0.072</b>
<p>(1) The \$2.5m cash offered in the Amended Plan is used to pay the Convenience Creditors (\$800k) and Cash Election Creditors (\$2.6m). The cash and these creditors have been excluded from the Amended Plan recoveries.</p> <p>(2) The net proceeds from the sale of PREI is the midpoint value contained in the Monitor's 9th Report - 50% for the Amended Plan, 100% for the SISP.</p> <p>(3) Includes the Surrey Distribution Centre and Barges, fibre supply agreements, and mobile equipment at the midpoint value noted in the Monitor's 9th Report.</p> <p>(4) Claims are disputed.</p> <p>(5) Claims are contingent and unliquidated, so cannot be valued.</p> <p>(6) Value is based on actuarial funding estimate as at December 31, 2011.</p>		

- 8.8 The Monitor's analysis assumes a *pari passu* distribution of proceeds to Unsecured Creditors on a substantively consolidated basis under the SISP, including to the 2016 Noteholders for their deficiency claim after credit bidding a portion of their debt under the SHPA.
- 8.9 The analysis above illustrates that Unsecured Creditors could receive 3.8 cents per dollar of their Claim under the Amended Plan, or 7.2 cents under the SISP. However, the Monitor is of the view that there is significantly greater risk of recovery associated with the SISP as compared to the Amended Plan.

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

**May 15, 2012**

- 8.10 The recoveries by Unsecured Creditors under the SISP could differ from the Monitor's estimate as set forth above due to a number of factors, including the following:
- 8.10.1 The sale values shown above represent the midpoint of the Monitor's estimated range of values for the Unencumbered Assets as provided in the Monitor's 9<sup>th</sup> Report. Circumstances may arise such that the recoveries under the SISP may vary materially due to higher or lower realizations. For example, the Stalking Horse Purchaser has indicated it is prepared to value the Unencumbered Assets to be acquired by it under the SHPA at \$8 million. If this value is accepted, the recovery to the Unsecured Creditors under the SISP would drop to 5.5 cents.
- 8.10.2 The recovery noted in the above table assumes that the distribution is done on a consolidated basis, similar to the Amended Plan. If this assumption does not materialize, some creditors would likely receive a higher distribution, while others would likely receive a lower distribution;
- 8.10.3 The 2016 Noteholders have recently asserted that while the 2016 Security does not extend to the Unencumbered Assets, it does extend to any proceeds generated by the sale of those assets, effectively giving the 2016 Noteholders security over the Unencumbered Assets. As a result, they assert that under the SISP, the value from the sale of those assets would accrue to the 2016 Noteholders, not to Unsecured Creditors generally. In that case, there would likely be no recovery for Unsecured Creditors in a sale scenario. By contrast, under the Amended Plan, the 2016 Noteholders make no such claim to the proceeds from the sale of the PREI Interest.
- 8.10.3.1 The resolution of this issue would likely require an application to the Court. Although counsel for the Monitor has expressed the preliminary view that the 2016 Noteholder Security would not extend to the proceeds of sale of the Unencumbered Assets, it is acknowledged that there is a prospect that the 2016 Noteholders' position may be upheld.
- 8.11 Beneficiaries of the Company's pension plans and post-retirement benefit plans are not affected by the Amended Plan. In the SISP, a purchaser would likely not take on these obligations and the beneficiaries would have significant claims against the Company. Under the Amended Plan, the beneficiaries are expected to have their pensions and post retirement benefits maintained 100% with funding from the Company's ongoing operations. The Monitor notes that this outcome assumes that the Company is able to fund these ongoing liabilities post-emergence.
- 8.12 In light of the foregoing, the Monitor considers the Amended Plan to be fair and reasonable in respect of the potential distribution to creditors. The Monitor makes

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

**May 15, 2012**

particular note of the significant risks associated with the recovery to Unsecured Creditors in the SISP.

## ***Viability of the Company upon Plan Implementation***

- 8.13 The Company has developed financial projections for the year ended December 31, 2012 that reflect the anticipated impact of the Plan (the “**Financial Projections**”). These Financial Projections are based on the Company’s forecasted results for operations in 2012. The Monitor has reviewed these Financial Projections and considered the underlying assumptions in light of industry data and other information obtained from the Company as part of its assessment of the Amended Plan.
- 8.14 Based on the Financial Projections, and with the Monitor’s assistance, the Company has prepared weekly cash flow forecasts. The Company’s most current cash flow forecast is attached to the Monitor’s 13<sup>th</sup> Report dated May 9, 2012. As set out therein, the Company is projected to maintain adequate liquidity during the period of May 1, 2012 to June 30 2012. The Available Liquidity over this period ranged from \$5 to \$23 million.
- 8.15 The Company and the Monitor are currently in the process of extending the cash flow forecast beyond June 30, 2012. This process will be undertaken over the next few weeks. This updated forecast will enable the Company, the Monitor and other stakeholders to estimate with greater certainty the financial impact of the Amended Plan’s implementation.
- 8.16 At the time the Amended Plan is implemented, the Company will need to fund certain non-operational costs totaling approximately \$24 million. These costs are triggered upon implementation of the Amended Plan and become payable at that time. The non-operational costs payable upon implementation consist of the following:
- 8.16.1 Cash distributions to General Unsecured Cash Creditors under the Amended Plan (\$2.5 million);
  - 8.16.2 Settlement of the Administration Charge (up to \$1.5 million);
  - 8.16.3 Payment of the success fees of the financial advisors to the Company, the 2016 Noteholders, and the 2014 Noteholders (\$7.5 million);

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

**May 15, 2012**

- 8.16.4 Payment of the unpaid professional fees of parties not covered by the Administration Charge (estimated \$6.5 million);
  - 8.16.5 Exit financing placement costs and legal fees (estimated \$4 million); and
  - 8.16.6 Other exit costs (estimated \$2.0 million).
- 8.17 It is not yet clear that the Company will have sufficient liquidity to fund these non-operational costs, particularly in light of the limited Available Liquidity noted above. The Company, together with the 2016 Noteholders, will need to explore all options available if the Amended Plan is approved in order to secure additional financing or make alternative arrangements to fund these costs. The Company's 50% share of the PREI proceeds, together with the proceeds of sale of other Unencumbered Assets during these CCAA Proceedings, could partially mitigate the Company's liquidity constraints. Any deficiencies will need to be sourced through efforts of the Company in conjunction with the 2016 Noteholders.
- 8.18 At the time of implementation, the Company will also be required to reach agreements with its critical suppliers concerning the Company's ongoing obligations. It can be expected this group will likely seek some form of security for the Company's obligations (i.e. letters of credit, cash collateral, etc.) in order to facilitate implementation of the Amended Plan. This group of 16 important vendors currently have a charge against the Company's assets in the amount of \$17 million and are extending credit in the aggregate amount of approximately \$12 million.
- 8.19 In addition to the above-noted short term liquidity concerns on implementation, the projected free cash flow suggests the Company's near-term liquidity position may be challenged post-emergence. Based on the Financial Projections, the free cash flow will be sufficient to fund the estimated interest payments required if the Company elected the cash-PIK interest option, but is insufficient to service the Company's cash interest costs if the Company elects the cash interest payment option. A payment default post-emergence is therefore a concern for the Company. The Monitor is cognizant that if this default materializes, the New First Lien Noteholders (who would at emergence be the majority shareholders of the Company) could waive such event and could explore options to address the issue if it were to arise.
- 8.20 As noted earlier in this report, the Company needs to obtain exit financing similar in amount and cost to the current DIP Facility. Indeed, the Financial Projections forecast an

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

**May 15, 2012**

operating line requirement to December 31, 2012 in a similar amount as the current DIP Facility. This remains a condition precedent to the Amended Plan, and needs to be readdressed by the Company given the recent change in capital structure proposed in the Amended Plan.

- 8.21 In order to fund the above costs, the Financial Projections assume that the Company's working capital will improve over its current levels. The largest part of this working capital improvement is expected to come from increased trade credit over current levels of approximately \$50 million between now and December 31, 2012. This increase is anticipated to reflect a return to trade credit balances similar to pre-filing levels. While this assumption would normally be a reasonable assumption, in this case it may prove challenging given the recent history of trade vendors who have contracted credit rather than expanded it.
- 8.22 In the Monitor's view, success of the Amended Plan in terms of the emergent Company's business is premised on the expectation that the Company's earnings will improve in the short to medium term so that it can service its debt. Until earnings improve, the Company, in conjunction with the 2016 Noteholders, will need to take steps to ensure it has sufficient liquidity to fund operations and its debt service costs.

## ***SISP Alternative***

- 8.23 The SISP provides an alternative for the Company in the event of a Plan Failure. The SISP provides a clear approach to the marketing and sale of the Company's assets, with the inclusion of a stalking horse bid in the form of the SHPA. The existence of the SISP could provide stability for the Company and its stakeholders during the process, thereby facilitating the continuation of going-concern operations and ultimately a sale transaction for the business.
- 8.24 The SISP also provides for a relatively short timeframe for a sale transaction to be completed, and accordingly provides some clarity regarding the future of the Company's operations, including for its customers, vendors, employees and other stakeholders.
- 8.25 As discussed earlier, the potential distributions to some Unsecured Creditors could be higher under the SISP as compared to under the Amended Plan. However, there is significant risk attached to this given the issues raised above in paragraphs 8.9 and 8.10, such that recoveries under the SISP may not in fact be higher. There are also some

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

**May 15, 2012**

Creditors (specifically the Convenience Creditors and Cash Election Creditors) who would likely receive less cash under the SISP than under the Amended Plan.

- 8.26 Under the Amended Plan, the Salaried Pension Plan is unaffected and would continue to receive contributions post-emergence based on the Company's ability to continue such funding. However, under the SISP, the Salaried Pension Plan's claims would likely be crystallized if that plan is not assumed by a purchaser.
- 8.27 As detailed in paragraph 8.16, significant costs are triggered upon implementation of the Amended Plan. Virtually all of these costs would also be incurred under the SISP and will need to be dealt with as part of the closing of any sale transaction. The Monitor notes that these costs are provided for in the SHPA as set out in paragraph 7.4.3.1.

## **9. MONITOR'S CONCLUSION ON THE AMENDED PLAN**

- 9.1 The Monitor has developed its conclusion on the fairness and reasonableness of the Amended Plan taking into account the interests of numerous stakeholders having various interests in the Company and the Amended Plan. Those stakeholders include the Company itself, the 2016 Noteholders, the 2014 Noteholders, the trade creditors, other General Unsecured Creditors, the active employees, the retired employees, and the communities in which the Company's mills operate.
- 9.2 The two options that are available to creditors, namely the Amended Plan and the SISP, will each be viewed differently by the various stakeholders based on how each alternative impacts their respective interests and their own outlook on the future prospects for the Company. In recognition of the foregoing, the Monitor has endeavoured to consider the Amended Plan from multiple view points and has taken each into account in reaching its conclusions.
- 9.3 In particular, the Monitor acknowledges that the 2016 Noteholders are the largest economic stakeholder based on the amount they are owed and the security they hold for their debt. The Monitor also acknowledges that the other stakeholders, including the employees and retirees, have an interest and a place in Catalyst's restructuring process and those interests must be taken into account as well. In this regard, the Monitor anticipates that the majority of the 2016 Noteholders, the active employees, and the retirees are fully supportive of the Amended Plan and its implications.

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

**May 15, 2012**

- 9.4 Overall, the Monitor has concluded that the Amended Plan is fair and reasonable. The Monitor specifically notes the following reasons for reaching its conclusion on the Amended Plan:
- 9.4.1 The 2016 Noteholders are accepting a significant compromise in their indebtedness totaling \$184 million. This will reduce the Company's cash interest requirements after Plan implementation;
  - 9.4.2 The Amended Plan provides for payments to Creditors that are reasonable in the circumstances. In reaching this conclusion, the Monitor notes that the Amended Plan provides Unsecured Creditors (other than General Unsecured Cash Creditors) with an estimated distribution of approximately 3.8 cents per dollar of Claim. While the SISP may result in a greater distribution to Unsecured Creditors (i.e. 7.2 cents per dollar of claim) there are significant inherent risks associated with that process such that recoveries to Unsecured Creditors may be less, or even nonexistent; and
  - 9.4.3 The General Unsecured Cash Creditors are anticipated to receive a greater distribution under the Amended Plan than under the SISP. Further, many Creditors with Unaffected Claims and other significant stakeholders (including the Salaried Pension Plan beneficiaries) are unaffected under the Amended Plan, whereas their interests would likely be subject to compromise in the event of a sale process.
- 9.5 Notwithstanding the Monitor's support for the Amended Plan, there are concerns with respect to the Company's viability post-emergence. These concerns are summarized as follows:
- 9.5.1 The ability of the Company to secure sufficient liquidity post emergence to fund certain costs triggered on implementation as well as to relieve operations from the risks of liquidity shortages; and,
  - 9.5.2 The debt service costs associated with the New First Lien Notes, which may consume virtually all of the Company's free cash flow based on the current Financial Projections.
- 9.6 The Monitor notes that these concerns also exist in the SISP and accordingly, it is necessary for the Company and the 2016 Noteholders to find solutions for these concerns in either alternative.
- 9.7 While the Monitor has identified the above concerns, it acknowledges that there are viable solutions to these concerns as a result of the 2016 Noteholders being both the debt



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

**May 15, 2012**

holders and the holders of virtually all of the equity at emergence as contemplated in the Amended Plan. In this regard, the Monitor has been advised that the 2016 Noteholders are fully aware of the matters and will address them as they arise after the Amended Plan is sanctioned and prior to its implementation. While it would have been desirable to have these matters resolved prior to the creditor meetings, the Monitor understands that such was not likely achievable prior to the certainty created by the approval of the Amended Plan.

- 9.8 In conclusion, the Monitor is of the view that the Amended Plan is fair and reasonable and the Monitor recommends that creditors vote in favour of the Amended Plan.

This report is respectfully submitted this 15<sup>th</sup> day of May, 2012.

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



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



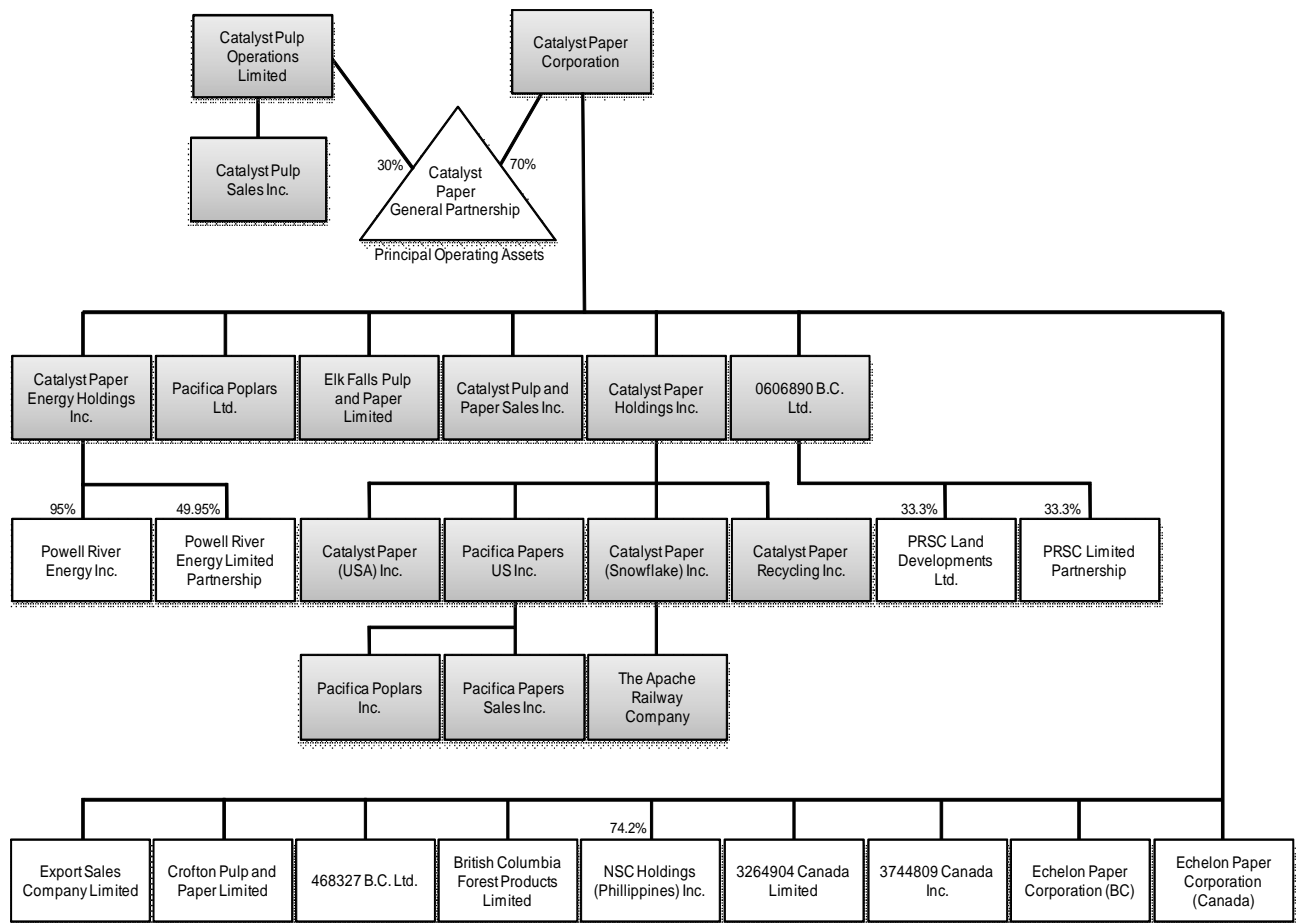
**Mica Arlette, CA, CIRP**  
**Senior Vice President**

## **APPENDIX A**

### **Petitioner Parties Organization Chart**

## Catalyst Paper Corporation Organizational Chart

## APPENDIX A



## Notes

1. Unless otherwise noted, Common share ownership is 100%. Preferred share ownership is not identified in this chart.
2. Shaded entities represent the Petitioners in the CCAA proceedings.
3. Catalyst Paper General Partnership is also subject to the CCAA proceedings.

## **APPENDIX B**

### **Index of Defined Terms**

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

## INDEX OF DEFINED TERMS

<b>Term</b>	<b>Definition</b>
<b>ABL</b>	Asset-based loan
<b>Administration Charge</b>	The charge granted pursuant to paragraph 39 of the Amended and Restated Initial Order, as more particularly set out therein, in favour of the Monitor, counsel to the Monitor, counsel to the Debtors, and counsel to the Directors
<b>Affected Claim</b>	Any Claim that is not an Unaffected Claim
<b>Affected Creditor</b>	Any Creditor having an Affected Claim in respect of and to the extent of such Affected Claim
<b>Amended Plan</b>	The Company's Amended and Restated Plan of Compromise and Arrangement filed pursuant to the CCAA on May 15, 2012
<b>Amended and Restated Initial Order</b>	The Order of the Court dated January 31, 2012, as amended and restated on February 3, 2012, and as subsequently amended by further order of the Court, and as may be further amended, supplemented or varied by the Court
<b>Available Liquidity</b>	The Company's ending book cash balance <i>plus</i> the borrowing base availability under the DIP Facility that is greater than \$26.3 million
<b>Cash Election</b>	An election made by a General Unsecured Creditor who is not otherwise deemed to be a Convenience Creditor in accordance with the terms of the Meetings Order, in full and final satisfaction of his, her or its Allowed Claim, to deem such Creditor's Claim equal to CAD \$10,000 for distribution purposes, which election shall be deemed a vote in favour of the resolution to approve the Plan at the Unsecured Creditors Meeting in the full filed amount of such Creditor's Allowed Claim
<b>Cash Election Creditor</b>	A General Unsecured Creditor who is not otherwise deemed to be a Convenience Creditor who makes a valid Cash Election in accordance with the terms of the Meetings Order
<b>Catalyst or the Company</b>	Catalyst Paper Corporation and the entities included in Appendix A
<b>CBCA Plan</b>	The Company's contemplated plan of arrangement with its creditors and shareholders under the <i>Canada Business Corporations Act</i> filed January 17, 2012
<b>CCAA</b>	<i>Companies' Creditors Arrangement Act</i>

<b>CCAA Charges</b>	Collectively, the Administration Charge, the DIP Lenders' Charge, the Critical Suppliers' Charge, the D&O Charge, the Financial Advisor Charge, the KERP Charge, and any other charge over the Debtors' assets created by other Order of the Court and included in "Charges" (as such term is defined in the Amended and Restated Initial Order and as such charges may be amended, modified or varied by further Order of the Court)
<b>CEP</b>	Communications, Energy and Paperworkers' Union of Canada
<b>Claim</b>	Any Pre-Commencement Claim, Restructuring Claim or Directors/Officers Claim
<b>Claims Bar Date</b>	5:00 p.m. (prevailing Pacific Time) on April 18, 2012, or such other date as may be ordered by the Court
<b>Commencement Date</b>	January 31, 2012
<b>Convenience Claim</b>	A General Unsecured Claim equal to or less than CAD \$10,000
<b>Convenience Creditor</b>	A holder of a Convenience Claim
<b>Court</b>	The Supreme Court of British Columbia
<b>Creditor</b>	Any Person having a Claim including, without limitation, the transferee or assignee of a transferred Claim that is recognized as a Creditor in accordance with paragraph 35 of the Claims Procedure Order, a trustee, liquidator, receiver, manager, or other Person acting on behalf of such Person
<b>CSE&amp;P</b>	The Catalyst Salaried Employees and Pensioners Steering Committee
<b>DIP Facility</b>	The credit facility approved by the Court pursuant to paragraph 41 of the Amended and Restated Initial Order
<b>Directors/Officers Claims</b>	Claims for which the directors or officers of the Company may be liable in such capacity
<b>Effective Date</b>	The Business Day, which date shall be acceptable to the Majority Initial Supporting Noteholders, in consultation with the Initial Supporting Unsecured Noteholders, and in accordance with the Restructuring and Support Agreement, on which (i) the Conditions Precedent have been satisfied, fulfilled or waived in accordance with the terms hereof, as applicable, and (ii) the Monitor has completed and filed its certificate with the Court in accordance with Section 5.3 of the Plan
<b>Equity Election</b>	An election by an Unsecured Creditor who is not a Cash Election Creditor made on or before the Equity Election Deadline to receive such Creditor's <i>pro rata</i> share (calculated by reference to the aggregate amount of all Allowed Unsecured Claims after all Disputed Claims have been (a) Allowed or (b) determined by Final Order in accordance with the Claims Procedure Order) of 600,000 New Common Shares

<b>Excluded Assets</b>	<p>Those assets that will not be acquired by the Stalking Horse Purchaser pursuant to the SHPA, described generally as:</p> <ul style="list-style-type: none"> <li>a. all of the Company's right, title and interest in PREI and PREP and certain related indebtedness;</li> <li>b. all right, title and interest in and to the lands and fixtures at the Company's Elk Falls mill, along with any water lot leases, water licences and permits associated with these properties;</li> <li>c. all of the Company's right, title and interest in PRSC; and</li> <li>d. all right, title and interest in and to any real property forming part of the poplar farms owned by the Company in Washington State and on Vancouver Island, British Columbia</li> </ul>
<b>Financial Projections</b>	Financial projections for the year ended December 31, 2012 that reflect the anticipated impact of the Plan
<b>First Lien Noteholders</b>	The 2016 Noteholders
<b>First Lien Notes</b>	The 2016 Notes
<b>First Lien Notes Claims</b>	All Claims for amounts due in respect of the First Lien Notes, including without limitation outstanding principal and the First Lien Notes Unpaid Interest
<b>First Lien Notes Claims Class</b>	The Class comprising the First Lien Noteholders
<b>General Unsecured Cash Creditors</b>	Collectively, (i) Convenience Creditors who have not made a valid Convenience Share Election and (ii) Cash Election Creditors
<b>General Unsecured Creditors</b>	Holders of General Unsecured Claims
<b>Information Circular</b>	The Company's Information Circular dated March 23, 2012
<b>Initial Order</b>	Order of the Court of January 31, 2012
<b>Initial RSA</b>	The conditional restructuring support agreement among the Company and representatives of the Initial Supporting Noteholders, pursuant to which the Noteholders would compromise their debt in exchange for equity in Catalyst Paper Corporation
<b>Initial Supporting Noteholders</b>	Those certain 2016 Noteholders and 2014 Noteholders that are parties to the Initial RSA and the Revised RSA
<b>KERP</b>	Catalyst's key employee retention plan as approved by Order of this Court made March 9, 2012, and as shall be further amended as a Condition Precedent to the implementation of the Plan as set forth in Subsection 5.1(p) of the Plan
<b>KERP Charge</b>	The charge in favour of the employee beneficiaries of the KERP granted pursuant to paragraph 6 of the Court's Order dated March 9, 2012, as more particularly set out therein

<b>Lien</b>	Any valid and enforceable mortgage, charge, pledge, assignment by way of security, lien, hypothec, security interest, deemed trust or other encumbrance granted or arising pursuant to a written agreement or statute or otherwise created by law
<b>Management Incentive Plan</b>	Means any new management incentive plan approved by the new board of directors of reorganized Catalyst after the Effective Date
<b>Maximum Convenience Claims Pool</b>	CAD \$2,500,000, funded by the Debtors, which is the aggregate amount of cash available to pay all Convenience Cash Amounts
<b>Monitor</b>	PricewaterhouseCoopers Inc.
<b>New Common Shares</b>	The new common shares of reorganized Catalyst to be issued pursuant to Section 6.2 of the Amended Plan
<b>New First Lien Coupon Notes</b>	The secured, first lien coupon notes that were to be issued on the Effective Date pursuant to Section 6.2 of the Plan
<b>New First Lien Notes</b>	The secured, first lien notes due November 1, 2007, to be issued on the Effective Date pursuant to the New First Lien Notes Indenture and Section 6.2 of the Amended Plan, in the aggregate principal amount of \$250 million, with 11% interest due semi-annually in arrears in cash <i>or</i> 7.5% payable semi-annually in cash <i>plus</i> 5.5% payable semi-annually in kind
<b>New Labour Contracts</b>	The new labour agreements ratified by the members of the PPWC and the CEP, effective from May 1, 2012, through May 1, 2017
<b>Noteholders</b>	Collectively, the 2016 Noteholders and the 2014 Noteholders
<b>OPBGF</b>	Ontario Pension Benefit Guaranty Fund
<b>Petitioners</b>	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 and Energy Holdings Inc. o6o689o B.C. Ltd. Catalyst Paper Recycling Inc. Catalyst Paper (Snowflake) Inc. Catalyst Paper Holdings Inc. Pacifica Papers U.S. Inc. Pacifica Poplars Inc. Pacifica Paper Sales Inc. Catalyst Paper (USA) Inc. The Apache Railway Company
<b>PIK</b>	Paid in kind
<b>Plan</b>	The Company's Plan of Arrangement filed pursuant to the CCAA on March 22, 2012



<b>Plan Failure</b>	If the Creditors or the Court do not approve the Plan
<b>Port Alberni Water Lot Lease</b>	Two leases of water lots by the Company's Port Alberni pulp mill
<b>PPWC</b>	Pulp, Paper and Woodworkers of Canada
<b>Pre-Commencement Claim</b>	Any right or claim of any Person that may be asserted or made in whole or in part against the Debtors (or any of them), whether or not asserted or Made, in connection with any indebtedness, liability or obligation of any kind whatsoever, and any interest accrued thereon or costs payable in respect thereof, in existence on, or which is based on, an event, fact, act or omission which occurred in whole or in part prior to the Commencement Date, at law or in equity, by reason of the commission of a tort (intentional or unintentional), any breach of contract or other agreement (oral or written), any breach of duty (including, without limitation, any legal, statutory, equitable or fiduciary duty), any right of ownership of or title to property or assets or right to a trust or deemed trust (statutory, express, implied, resulting, constructive or otherwise) or for any reason whatsoever against any of the Debtors or any of their property or assets, and whether or not any indebtedness, liability or obligation is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known or unknown, by guarantee, surety or otherwise, and whether or not any right or claim is executory or anticipatory in nature including any right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action whether existing at present or commenced in the future, together with any other rights or claims not referred to above that are or would be claims provable in bankruptcy had the Debtors (or any of them) become bankrupt on the Commencement Date, and for greater certainty, includes any Tax Claim; <i>provided, however</i> , that "Pre-Commencement Claim" shall not include an Unaffected Claim or any contingent liabilities that may be crystallized in the future under any applicable environmental laws of British Columbia arising from the Debtors' operations and undertakings at Powell River, Port Alberni and Crofton, British Columbia
<b>PRD</b>	Paper Recycling Division
<b>PREI Interest</b>	The Company's right, title and interest in Powell River Energy Inc., Powell River Energy Limited Partnership and certain related indebtedness
<b>PREI Proceeds Pool</b>	50% of the net proceeds from the sale of the PREI Interest
<b>PRSC</b>	The Company's interests in PRSC Land Development Inc., PRSC Limited Partnership and 0606890 B.C. Ltd.
<b>Restructuring Claim</b>	Any right or claim of any Person against the Debtors (or any one of them) in connection with any indebtedness, liability or obligation of any kind whatsoever owed by the Debtors (or any one of them) to such Person arising out of the restructuring, disclaimer, rescission, termination, or breach on or after the Commencement Date of any

contract, employment agreement, lease or other agreement or arrangement, whether written or oral, and whether such restructuring, disclaimer, resiliation, termination or breach took place or takes place after the date of the Claims Procedure Order, and includes for greater certainty any right or claim of an employee of any of the Debtors arising from a termination of its employment after the Commencement Date; provided, however, that “Restructuring Claim” shall not include an Unaffected Claim

**Revised RSA**

The updated conditional restructuring support agreement among the Company and representatives of the Initial Supporting Noteholders, pursuant to which the Noteholders would compromise their debt pursuant to a plan of arrangement to be filed in the CCAA proceedings

**Salaried Pension Plan**

Catalyst Paper Corporation Retirement Plan for Salaried Employees, B.C. Reg. No. 85400-1

**Sanction Hearing**

The hearing of the Company’s application for the Court’s approval of the Plan by way of the Sanction Order, expected to be scheduled on May 23, 2012 (or such other date as may be agreed by the Company, the Monitor and the 2016 Noteholders).

**SHPA**

Stalking horse purchase agreement

**SISP**

Sale and investor solicitation process

**Snowflake Hourly Pension Plan**

Catalyst Paper (Snowflake) Inc. Pension Plan for Hourly Employees

**Stalking Horse Purchaser**

CP Acquisition, LLC

**Surrey Distribution Centre and Barges**

A distribution centre located in Surrey, B.C. leased by the Company from Wesik Enterprises Ltd. and five barges

**TSX**

Toronto Stock Exchange

**Unaffected Claim**

Subject to further order of the Court:

- a. any right or claim of any Person that may be asserted or made in whole or in part against the Debtors (or any of them) in connection with any indebtedness, liability or obligation of any kind which arose in respect of obligations first incurred on or after the Commencement Date (other than Restructuring Claims and Directors/Officers Claims) and any interest thereon, including any obligation of the Debtors toward creditors who have supplied or shall supply services, utilities, goods or materials or who have or shall have advanced funds to the Debtors on or after the Commencement Date, but only to the extent of their claims in respect of such supply of services, utilities, goods, materials or funds on or after the Commencement Date;
- b. any Claim secured by any CCAA Charge;
- c. that portion of a Claim arising from a cause of action for which the Debtors are covered by insurance, but only to the extent of such coverage;
- d. any ABL Facility Claim;

- e. any DIP Facility Claim;
- f. any Intercompany Claim;
- g. any Claim referred to in sections 6(3), 6(5) and 6(6) of the CCAA
- h. any Governmental Priority Claim;
- i. any claims with respect to reasonable fees and disbursements of counsel of any Debtor, the Monitor, a Claims Officer, any Assistant (as defined in paragraph 5 of the Amended and Restated Initial Order), or any financial advisor retained by any of the foregoing, as approved by the Court to the extent required;
- j. any Claim of any employee of the Debtors (or any of them) employed by the Debtors (or any of them) as of the Commencement Date, but only in respect of a Claim for wages, including vacation pay and banked time;
- k. any Claim secured by a Lien other than the First Lien Notes Claims; and
- l. any Claim existing on the Commencement Date that has been satisfied, cured or rectified on or before the date of the Sanction Order

<b>Unaffected Creditors</b>	Creditors having Unaffected Claims
<b>Unencumbered Assets</b>	Any assets not subject to the 2016 Noteholder Security
<b>Unsecured Claims Class</b>	The Class comprising the Unsecured Claims
<b>Unsecured Creditors</b>	The Unsecured Noteholders and the General Unsecured Creditors
<b>Unsecured Noteholders</b>	All holders of Unsecured Notes, including where applicable beneficial holders of Unsecured Notes
<b>Unsecured Notes</b>	The 2014 Notes
<b>US Court</b>	The United States Bankruptcy Court for the District of Delaware
<b>2014 Noteholders</b>	The holders of the 2014 Notes
<b>2014 Notes</b>	Senior unsecured notes due March 2014 with a face value of US \$250 million
<b>2016 Noteholders</b>	The holders of the 2016 Notes
<b>2016 Noteholder Security</b>	The security granted by the Company in favour of Computershare Trust Company of Canada, as collateral agent for the 2016 Noteholders
<b>2016 Notes</b>	The Senior secured notes and the Class B Senior secured notes due December 2016 with a face value of US \$390 million