

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 EIGHTH REPORT TO COURT

April 1, 2012



**CATALYST PAPER CORPORATION, ET AL
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1. INTRODUCTION

- 1.1 On January 31, 2012, on the application of Catalyst Paper Corporation and the entities included in Appendix A (collectively referred to as "**Catalyst**" or the "**Company**"), the Supreme Court of British Columbia (the "**Court**") made an order (the "**Initial Order**") granting Catalyst protection from its creditors pursuant to the *Companies' Creditors Arrangement Act* (the "**CCAA**"). Under the Initial Order, PricewaterhouseCoopers Inc. was appointed Monitor of the Company (the "**Monitor**").
- 1.2 Currently, there is a stay of proceedings under the CCAA that continues until April 30, 2012.
- 1.3 This is the Monitor's Eighth Report to Court. The purpose of this report is to advise the Court of the following matters, including those relating to the Company's application and those other applications scheduled for April 2, 2012:
 - 1.3.1 The status of the Monitor's review of the security of the 2016 Noteholders, and the identification and valuation of the Senior Secured Notes Excluded Assets (as defined below);
 - 1.3.2 The proposed stalking horse purchase agreement (the "**SHPA**"), the proposed revisions to the sale and investor solicitation process (the "**SISP**"), and the Monitor's comments thereon;
 - 1.3.3 The proposed sale of certain poplar lands owned by the Company;
 - 1.3.4 The notices of application of certain Critical Suppliers (as defined in the February 6, 2012 Order of this Court (the "**Critical Suppliers Order**") to vary and/or terminate the Critical Suppliers Order; and
 - 1.3.5 The notice of application of certain Critical Suppliers to amend the definition of "Commencement Date" (being the date on which these CCAA proceedings were initiated) in the Claims Procedure Order and the Meetings Order, and in the definition of the Critical Suppliers' Charge in the Amended and Restated Initial Order, in respect of Critical Suppliers.

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- 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 application materials for the hearing in the CCAA proceedings scheduled for April 2, 2012, including Affidavit #2 of Andrew Crabtree sworn on March 23, 2012 (the “**Crabtree Affidavit #2**”) and Affidavits #3 and #4 of Andrew Crabtree each sworn on March 30, 2012 (respectively “**Crabtree Affidavit #3**” and “**Crabtree Affidavit #4**”).

2. BACKGROUND

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

www.pwc.com/car-catalystpaper

- 2.2 All prescribed materials filed by Catalyst and the Monitor relating to this CCAA proceeding are available to creditors and other interested parties in electronic format on the Monitor's website. The Monitor will continue to post regular updates to the website and will add prescribed and other materials as required.
- 2.3 The Company has also made applications to the United States Bankruptcy Court for the District of Delaware (the “**US Court**”) for provisional relief pursuant to Chapter 15 of the US Bankruptcy Code. On March 5, 2012, the US Court made a final order granting recognition of these proceedings as a foreign main proceeding pursuant to Chapter 15 of the US Bankruptcy Code. The Monitor's website also contains materials relating to the proceedings in the US Court.

3. REVIEW OF 2016 SECURITY AND EXCLUDED ASSETS

- 3.1 Fasken Martineau DuMoulin LLP (“**Fasken Martineau**”), as counsel to the Monitor, is currently reviewing the security granted by the Company in favour of Computershare Trust Company of Canada, as collateral agent for the 2016 Noteholders (the “**2016 Notes Security**”), in order to opine on the validity and enforceability of that security. Given that the Company has assets in jurisdictions other than British Columbia, this review necessarily requires Fasken Martineau to obtain security opinions from other counsel in those jurisdictions. Fasken Martineau has informed the Monitor that its security review is continuing, and that, subject to timely receipt of opinions of U.S.

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counsel, it expects to have a comprehensive opinion to the Monitor this week. Fasken Martineau advises that to date all indications are that the 2016 Notes Security is validly issued, executed and registered.

3.2 In the hearing before the Court on March 21 and 22, 2012, the Monitor informed the Court that it would perform a review (the “**Senior Secured Notes Excluded Asset Review**”) of the Company’s assets to identify those assets that are not subject to the 2016 Notes Security (defined in the SISP and herein as the “**Senior Secured Notes Excluded Assets**”) and to provide a preliminary view as to the value range of those assets. The Senior Secured Notes Excluded Asset Review is necessary for the following reasons:

3.2.1 to provide a basis for creditors to better evaluate the consideration being offered to them under the plan of compromise and arrangement (the “**Plan**”) filed by the Company on March 21, 2012, which will be voted on at the meetings of creditors scheduled for April 23, 2012; and

3.2.2 to provide a basis for the Company, its financial advisors and the Monitor to evaluate any asset purchase offers received for the purchase of those assets (including the stalking horse bid discussed below), should there be a Plan Failure (as defined below) and the SISP is undertaken.

3.3 The Monitor commenced this review following the March 22, 2012 Court hearing, and while it has made considerable progress there is still substantial work to be completed to provide a meaningful report to the Court. The Monitor intends to provide a report on its review in the week of April 9, 2012 that will clearly identify the Senior Secured Notes Excluded Assets and comment on the valuation of these assets.

4. STALKING HORSE PURCHASE AGREEMENT AND SISP

4.1 On March 22, 2012, this Court made an Order (the “**SISP Order**”) approving the SISP which is to be initiated in the event that the plan of arrangement (the “**Plan**”) filed with the Court on that date is not approved by the Company’s creditors or sanctioned by the Court (as defined in the SISP Order, a “**Plan Failure**”). The SISP Order further authorized the Company, in the event of a Plan Failure, to enter into the SHPA with CP Acquisition, LLC (the “**Purchaser**”) in respect of the purchase and sale of all or substantially all of the assets of the Company, and such agreement would be the

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stalking horse bid under the SISP. The Purchaser is an entity controlled by the 2016 Noteholders.

- 4.2 The form of the SHPA was to be approved by the Court on a further application. On March 23, 2012, the Company filed a notice of application and the Crabtree Affidavit #2, attaching a form of the SHPA. The Monitor raised a number of concerns with the Company and the 2016 Noteholders regarding certain parts of the SHPA as filed. These discussions resulted in a number of revisions to the form of the SHPA. An amended version of the SHPA reflecting the revisions discussed with the Monitor as well as certain other changes, was circulated as an exhibit to the Crabtree Affidavit #4 on March 30, 2012. The Company is seeking the Court's approval of this amended form of the SHPA.

Key terms of the SHPA

- 4.3 Unless otherwise noted, all capitalized terms used below are as defined in the SHPA.
- 4.4 The SHPA provides for the purchase by the Purchaser, or its nominees, of substantially all of the assets of the Company, including all of the Company's mills in British Columbia and Arizona, together with the mill equipment, real property, cash and working capital, intellectual property, and certain associated contracts and equity interests of the Company.
- 4.5 The SHPA refers to a number of "Excluded Assets" that will not be acquired by the Purchaser. The principal Excluded Assets identified by the Purchaser are detailed in the draft schedule 2.1(b)(x) (the "**Excluded Assets Schedule**"), which will be incorporated into a document to be completed by the Purchasers (the "**Purchasers Disclosure Letter**") as part of the execution of the SHPA. The Excluded Assets Schedule is attached as Exhibit B to the Crabtree Affidavit #4. In summary these assets consist of the following:
- 4.5.1 **The PREI Interest:** All of the Company's right, title and interest in Powell River Energy Inc. ("**PREI**") and the Powell River Energy Limited Partnership ("**PREP**") and certain related indebtedness;

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- 4.5.2 **Elk Falls:** All right, title and interest in and to the lands and fixtures at the Company's former Elk Falls mill, along with any water lot leases, water licences and permits associated with those properties; and
- 4.5.3 **Poplar Farms:** 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.
- 4.6 All of the above noted Excluded Assets (with the possible exception of the fixtures at Elk Falls) form part of the Senior Secured Notes Excluded Assets that are not considered to be integral to the operations of the Company. The Purchaser has informed the Monitor that it intends to acquire all of the other Senior Secured Notes Excluded Assets, as those assets are considered integral to the operations being acquired as part of the SHPA. As discussed below, the Purchaser will pay in cash the value allocated to those assets.
- 4.7 The SHPA identifies other Excluded Assets, including the proceeds from the sale of any Senior Secured Notes Excluded Assets, any excluded or non-assigned contracts, claims against the Company's directors and officers, and certain books and records. The Excluded Assets Schedule may be revised between now and execution of the Agreement in the event any other Excluded Assets are identified.
- 4.8 Under the SHPA, the Purchaser will also assume certain obligations of the Company (as defined in the SHPA, the "**Assumed Liabilities**"). These consist primarily of obligations under the Assigned Contracts identified in the SHPA, liabilities for transfer taxes, liabilities under the Transferred Employee Plans, any claims not paid in cash at closing that rank in priority to the 2016 Notes Security (including the Court-ordered charges in the CCAA proceedings), and all post-filing and post-closing obligations related to the acquired assets. The Excluded Liabilities specifically identified in the SHPA include those related to environmental claims and employee health and safety claims that existed prior to the Closing Date.
- 4.9 The Monitor notes that the Transferred Employee Plans, which are to be identified in the Purchaser Disclosure Letter, shall not include any of the Company's registered pension plans, post-retirement benefit plans for either current or former employees, or the retirement plan for salaried employees. However, the Purchaser will be assuming the commitments under the Collective Labour Agreements that were ratified on March

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14, 15, and 16, including but not limited to the Defined Benefit Plan known as “Catalyst Corporation Retirement Plan A BC Reg. 85944-1”.

- 4.10 The total purchase price under the SHPA is US\$275.0 million, plus the value of the Assumed Liabilities (discussed above). The purchase price shall be payable, as determined by the Purchaser, by way of:
- 4.10.1 a credit bid of a portion of the 2016 Noteholders’ secured claim; and
 - 4.10.2 a cash payment for any assets comprising Senior Secured Notes Excluded Assets; and
 - 4.10.3 the assumption of liabilities of:
 - 4.10.3.1 any claims ranking in priority to the 2016 Notes, including claims pursuant to the Court-ordered charges in the CCAA proceedings; and
 - 4.10.3.2 amounts payable for post-filing liabilities.
- 4.11 In order to make the cash payments for priority claims and the Senior Secured Notes Excluded Assets referred to above, the Purchaser will first use any available cash in the Company at the time of Closing. After all such cash has been expended, the Purchaser will fund any additional required cash.
- 4.12 The SHPA contemplates an ‘as-is, where-is’ sale of the Company’s purchased assets. The Company makes a number of representations and warranties in the SHPA, many of which are to be set forth in a separate document (the “**Sellers Disclosure Letter**”). The Monitor is advised that this document has not yet been drafted.
- 4.13 The SHPA contains a number of conditions to closing, as well as termination provisions. Among other terms, the Purchaser will have the option to terminate the SHPA if certain events contemplated in the SISP (including the Auction, obtaining of sales orders, and Closing) do not occur by specified outside dates. These dates are not provided in the form of SHPA that has been submitted for approval, but the Monitor understands that these dates will be determined and included in the SHPA upon implementation of the SISP and execution of the SHPA.

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- 4.14 The Monitor understands from its discussions with the Purchaser that, to the extent it is permitted to amend the Purchasers Disclosure Letter prior to the Auction, it will not amend the amount of its bid or the allocation of proceeds to the Senior Secured Notes Excluded Assets unless there is an Auction. Under the SISP (discussed below), the Purchaser is also entitled to submit subsequent bids as part of the Auction.
- 4.15 The SISP Order authorized the Company to agree to a professional fee and expense reimbursement of up to \$1.0 million in favour of the Purchaser, which reimbursement is secured by a charge over the Company's assets. The SHPA provides for this expense reimbursement to become payable in the event of Court approval of a superior offer to the Stalking Horse Bid, or the termination of the SHPA (except due to the Purchaser's breach of the SHPA).

Revisions to SISP

- 4.16 The Company has filed a revised version of the SISP Procedures attached as an exhibit to the Crabtree Affidavit #3. The changes to the SISP reflect a number of discussions between the Monitor, the Company and the 2016 Noteholders on certain structural issues around the bidding process.
- 4.17 The principal revisions were the following:
- 4.17.1 Amending the definition of "Parcels" in the SISP to include the PREI Interest as a separate parcel. This provides for the ability to sell the PREI Interest as a separate asset within the SISP, including to a purchaser who may wish to acquire the PREI Interest together with other parcels. The other Excluded Assets are to be sold by the Company outside the SISP;
 - 4.17.2 Amending the terms concerning "Qualified Bids" to allow for a Parcels Sale Proposal (being a sale proposal for one or more of the Parcels) to be considered a Qualified Bid if, in the Company's opinion, it may generate more value for the subject Parcel even if there are no Qualified Bids in respect of any of the other Parcels. This would, among other things, allow for bids on the Parcel containing the PREI Interest to be given due consideration as part of the sale process

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- 4.18 Powell River Energy Trust (“**PRET**”), a limited partner of PREP, has filed an application response asserting that it holds a right of first refusal (“**RFR**”) in relation to any sale of the PREI Interest. The amended terms of the SISP indicate that the sale of the PREI Interest may be subject to the RFR so that this provision may be expressly considered by potential purchasers.
- 4.19 The Monitor notes that while the Purchaser has identified the Excluded Assets, some Senior Secured Notes Excluded Assets are to be acquired under the SHPA. It is the Monitor’s understanding that these Senior Secured Notes Excluded Assets are, in the Company’s and the Purchaser’s view, integral to the operation of the Company’s business. Accordingly, the Company, the Purchaser and the Required Majority Noteholders (as defined in the SISP) have concluded that such assets should not be segregated under the SISP and available for sale separate and apart from the remaining assets. The Monitor concurs with that conclusion as it would likely be prejudicial to the broader group of stakeholders to allow such assets to be sold separately.
- 4.20 Acknowledging that certain Senior Secured Notes Excluded Assets are to be acquired under the SHPA (and potentially under one or more bids submitted as part of the SISP), the Monitor, the Company and the Purchaser discussed the need for any prospective purchasers (including the Purchaser) in the SISP to identify the amount of cash proceeds payable for any Senior Secured Notes Excluded Assets proposed to be acquired as part of a Qualified Bid (as defined in the SISP). The Company has indicated that, should the SISP ultimately be launched, the Company will direct its financial advisor to confirm to bidders that they are required to make such an allocation of value as part of their bids. It is acknowledged that such allocations are subject to change (both up and down) at the Auction.

Monitor’s Conclusions

- 4.21 The most current draft of the SHPA attached to the Crabtree Affidavit #4 has incorporated several amendments to address the Monitor’s concerns. This form of SHPA is now considered by the Monitor to be appropriate to take forward as a basis for the structure of a final agreement for a stalking horse bid.
- 4.22 The Monitor notes that the SHPA still requires some information in order to be finalized, consisting primarily of several key schedules, including the Purchasers Disclosure Letter and Sellers Disclosure Letter which will detail, *inter alia*, the final

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assets to be included or excluded from the transaction, and the contracts of the Company that are to be assigned to and assumed by the Purchaser under the SHPA. The Monitor understands that these will be completed in the coming weeks and provided to the Monitor. Should the SHPA be the Successful Bid under the SISP, the Company will be making a further application to this Court for approval of the final form of the SHPA.

- 4.23 One of the key outstanding items in the SHPA is the cash amount to be paid by the Purchaser for the Senior Secured Notes Excluded Assets. This is particularly relevant in considering the alternatives to the Plan. Based on discussions between the Monitor, the Company and the Purchaser, the Monitor has been advised by the Company and the 2016 Noteholders, that once the Monitor completes the Senior Secured Notes Excluded Asset Review, the Purchaser will review this information and indicate to the Company within 3 days the cash amount it intends to pay for the Senior Secured Notes Excluded Assets it intends to acquire. The Monitor will consider and report on this information in its report on the Plan on or before April 16, 2012, which would allow creditors to consider this information prior to the meetings of creditors and vote on the Plan. This was, in the Monitor's view, a significant concession on the part of the Purchaser, and is evidence that the Purchaser is acting in good faith, including in relation to the SISP.
- 4.24 The Monitor was copied on a letter dated March 27, 2012 to the Company from Bennett Jones LLP as counsel for an ad hoc group of 2014 Noteholders. In his letter, among other things, counsel for the 2014 Noteholders requested confirmation that the portion of the Purchase Price allocated to the Senior Secured Notes Excluded Assets would be paid in cash (as opposed to by the assumption of liabilities). While this is not explicitly stated in the SHPA, the Monitor understands that it was the intention of the Purchaser to make payment only in cash with respect to the Excluded Assets, and that the reference in section 2.2 (a)(A) of the SHPA to the assumption of liabilities was intended to apply only to liabilities related to post-filing obligations, assumed contracts and prior-ranking claims, all of which are referred to in that same section
- 4.25 The Monitor is of the view that the proposed changes to the SISP address the concerns expressed regarding the ability of bidders who are only interested in the PREI Interest to participate in the SISP. These changes would also provide for the Company and the Monitor to be able to give equal consideration to bids on the PREI Interest in comparison to other bids, including the Stalking Horse Bid. These changes have been

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agreed by the Monitor, the Company and the Majority Initial Supporting Noteholders, and so no further Court approval is required.

5. SALE OF POPLAR LAND SALE LOTS

Background

- 5.1 As described in Affidavit #3 of Robert Lindstrom dated March 28, 2012 (the "**Lindstrom Affidavit**"), the Company owns approximately 1,800 acres of poplar farm plantation lands in Snohomish County, Washington State (the "**Poplar Land**"). The Company is seeking the Court's approval to sell two parcels of Poplar Land (the "**Sale Lots**"), representing 898 acres of the Poplar Land, for approximately US \$3.6 million.
- 5.2 The Poplar Land was used, at an earlier point in time, by the Company as a farm for poplar trees for use in its paper mills in Canada. Significant portions of the Poplar Land are suitable for farming purposes.
- 5.3 As a result of poor economic conditions in or around 2008, the Company determined that the Poplar Land was surplus to the Company's needs and non-core to the ongoing operations of Catalyst, and decided to sell the Poplar Land. The Company retained the services of Snohomish Properties, a real estate broker (the "**Broker**"), to assist with the marketing and sale of the Poplar Land (the "**Poplar Sales Process**").

Description of the Poplar Sales Process

- 5.4 The details and results of the Poplar Sales Process are set out in the Lindstrom Affidavit. The Monitor has reviewed the Poplar Sales Process materials, and has had discussions with the individuals at Catalyst who were involved in the Poplar Sales Process in order to gain an understanding of the actions taken in and the results of the Poplar Sales Process.
- 5.5 The Monitor notes the following key activities in and results of the Poplar Sales Process set out in the Lindstrom Affidavit:
 - 5.5.1 The Poplar Land has been listed since mid- 2008 on a multiple listing service ("**MLS**") in Washington State, and has been actively marketed since that time.

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The MLS listings allow both brokers and consumers from around the world to access the Poplar Land listings. There are 21 MLS listings relating to the Poplar Land, with each listing detailing the asking price, acreage, county, and other relevant details of the respective parcel of land.

- 5.5.2 The total list price for the Poplar Land (including the Sale Lots and other lands) in 2008 was approximately US \$11 million.
- 5.5.3 In the period leading up to the CCAA filing, the Company sold certain small parcels of the Poplar Land; however, there was only sporadic interest in the major parcels. Several potential purchasers expressed an interest in the major parcels of Poplar Land, but no binding agreements were completed.
- 5.5.4 In 2011, the Company received an offer from U.S. Golden Eagle Farms LP (a Washington Limited Partnership) ("**Golden Eagle**") for US \$6 million for all of the Poplar Land, as well as approximately 200 acres of additional land the Company had listed at that time. Negotiations failed after Golden Eagle rejected the Company's counter-offer for US \$9 million.
- 5.5.5 Based on the overall property market and the conditions of the individual properties, the list price of the unsold parcels of Poplar Land was reduced at various intervals leading up to the CCAA filing. The aggregate list price for the Poplar Land is currently US \$9.3 million.
- 5.6 In March 2012, the Company received a further offer from Golden Eagle to purchase the Sale Lots for US \$3.6 million. The Company concluded that this offer should be accepted. The Company concluded this on the basis of the following key considerations:
 - 5.6.1 The Sale Lots comprise 898 acres of land and were listed on MLS for a combined value of US \$4.24 million;
 - 5.6.2 The Broker has estimated that based on recent sales of comparable farmland in the area, the estimated value of the Sale Lots is approximately US \$3.9 million. However, the Broker notes that there is currently a shortage of buyers for the Sale Lots and this price may not be achievable in the short term;

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- 5.6.3 The two parcels of land composing the Sale Lots both require certain cleanup activities to be completed before they would be suitable for farming. The time and financial costs associated with these cleanup activities would reduce the purchase price from the Broker's estimate above, and also reduces the number of potential purchasers for the Sale Lots;
- 5.6.4 The Company previously received three offers on the first parcel of land, and one offer on the second parcel of land which compose the Sale Lots. All of the previous offers had failed for various reasons, including low bid prices and financing issues with the potential purchasers;
- 5.6.5 The sale of the Sale Lots provides the Company with additional future liquidity and will avoid the payment of various ongoing maintenance costs and property taxes associated with the Sale Lots;
- 5.6.6 The agreement with Golden Eagle is not subject to financing; and
- 5.6.7 The Broker has stated that it believes that the current offer and agreement with Golden Eagle regarding the sale of the Sale Lots is reasonable and has recommended its acceptance.

Sale Agreement

- 5.7 Pacifica Poplars Inc. ("**Pacifica**") (a wholly owned subsidiary of Catalyst Paper Corporation) and Golden Eagle have entered into a Vacant Land Purchase and Sale Agreement (the "**Golden Eagle Agreement**"). The Monitor has had an opportunity to review the Golden Eagle Agreement and notes the following:
 - 5.7.1 The key terms of the Golden Eagle Agreement are consistent with the key elements of the March 2012 offer from Golden Eagle described above;
 - 5.7.2 The Golden Eagle Agreement has been signed and executed by Pacifica and Golden Eagle. The Golden Eagle Agreement is subject to approval of the Monitor, the Court and the U.S. Court;
 - 5.7.3 The Golden Eagle Agreement is scheduled to close on or before April 20, 2012 and is subject to a 20 day feasibility period; and

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- 5.7.4 Pacifica will receive the sales price of US \$3.6 million for the Sale Lots less a commission payable to the Broker.

Conclusions

- 5.8 In the Monitor's view, the Poplar Sales Process undertaken by the Company was structured and carried out in a manner that provides reasonable assurance that the overall sale proceeds from the Sale Lots is the maximum value that can be achieved in the current market. The Monitor supports the Company's application for Court approval of the Golden Eagle Agreement and authority to enter into the transaction contemplated by the Golden Eagle Agreement.
- 5.9 The Monitor understands that the assets to be realized pursuant to the Golden Eagle Agreement are Excluded Assets and not subject to the First Lien Note Security, but are subject to the DIP Lender's Charge. The proceeds from the sale are to be held by the Monitor pending further Order of the Court.

6. CRITICAL SUPPLIERS

- 6.1 Since the filing of the Monitor's Seventh Report, a number of creditors have filed applications to vary or set aside the Critical Suppliers Order. The Monitor wishes to address some of the comments made in those applications regarding the provision of information.
- 6.2 It was a term of the Critical Suppliers Order that, after March 11, 2012, Critical Suppliers could apply to seek to vary or set aside the Critical Suppliers Order. This date was selected based on the initial cash flow forecast filed in these proceedings, which indicated that the Company's minimum available liquidity would be in the week ending on that date. The Critical Suppliers Order did not direct the Company to prepare, or the Monitor to report on, a further cash flow forecast by that date.
- 6.3 In its Fourth Report, the Monitor indicated its intention to review and report on a revised cash flow forecast by the Company by Friday, March 23, 2012. The Monitor worked with the Company in an attempt to prepare a revised cash flow forecast by March 23, 2012. However, the revised cash flow forecast was not finalized until after that date. Among other things, the Company needed to complete its month-end accounting process in order to produce a meaningful updated cash flow forecast, and

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this was not possible until it had completed its month end accounting process and reconciliations. Once completed, the Monitor needed to review and assess other aspects of the overall cash flow, including the Company's plans and issues related to restructuring matters. This work was completed and the Monitor's report circulated on Tuesday, March 27, 2012, 2 business days after the guidance provided earlier in March.

- 6.4 The Monitor's views on the issue of continuing the Critical Suppliers Order were indicated in its Seventh Report. In summary:
- 6.4.1 The termination of the Critical Suppliers Order, and reversion to cash on delivery/cash in advance terms by suppliers, would cause an estimated short term reduction in liquidity for the Company in a range of \$17 million to \$24 million;
 - 6.4.2 Based on the Company's revised cash flow forecast, the Monitor is concerned that this reduction in liquidity would provide an insufficient cushion for other cash flow variances that may occur in the intervening period;
 - 6.4.3 The Monitor thinks that over the period to May 31, 2012, the Available Liquidity is sufficiently limited that it would be prudent to maintain the status quo with respect to the Critical Suppliers for at least another 30 to 45 days (i.e. to the end of April 2012) to allow for greater visibility into the expected liquidity situation towards the end of May 2012; and
 - 6.4.4 The Monitor will prepare a further report for the Court regarding the Company's liquidity in late April 2012, once the Company has completed its updated operational plan and assessed its liquidity. At that time, the Monitor will advise as to whether it recommends any modifications to, or the termination of, the Critical Suppliers Order.
- 6.5 The Monitor and the Company have received several detailed requests for information from certain Critical Suppliers, including the correspondence attached to Affidavit #1 of Susan Wood sworn March 29, 2012. Most of these information requests were addressed directly or indirectly in the Monitor's Seventh Report, particularly with respect to the Company's cash flow position and the Monitor's views thereon. The Monitor does not consider that all of the remaining information requested is necessary or appropriate to share on a piecemeal basis with individual Critical Suppliers.

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- 6.6 The Monitor and the Company are seeking to arrange a meeting with interested Critical Suppliers in the week of April 2 to discuss their broader concerns regarding the continuation of the Critical Suppliers' Charge. Copies of the Company's and the Monitor's correspondence to this end are attached as Appendix B. To the extent these discussions do not lead to a resolution of the concerns of the Critical Suppliers, the Monitor will comment on this in its intended report on cash flows towards the end of April as indicated above.
- 6.7 Among the principal issues raised by the Critical Suppliers in their application materials is that, based on the Revised Forecast contained in the Monitor's Seventh Report, the Company has sufficient liquidity such that the Critical Suppliers Order is no longer necessary. In its Seventh Report, the Monitor noted the potential reduction in Available Liquidity to \$10 million if the full estimated impact of terminating the Critical Suppliers Order was realized. In the Monitor's experience, this is a very small cushion for variances to cash flow for a company of this size, and so the Monitor does not consider it appropriate to potentially expose the Company and prejudice its restructuring process. As noted above, the Monitor will be in a better position towards the end of April 2012 to conclude on whether sufficient liquidity is available and to have a further discussion on whether the continuation of the Critical Suppliers Order is appropriate or necessary.
- 6.8 In balancing the interests of the Company and the Critical Suppliers, the Monitor is of the view that the Critical Supplier Order should remain in place and only be revisited at the end of April 2012.

7. COMMENCEMENT DATE OF CCAA PROCEEDINGS

- 7.1 Western Forest Products Inc., Seaspan Marine Corporation, and International Forest Products (collectively the "**Supplier Applicants**") have included in their notice of application a proposal to amend the Commencement Date of the CCAA proceedings for purposes of the Claims Procedure Order and the Meetings Order to change it to January 17, 2012 for all Critical Suppliers. This is a modified version of the previous application made by Canexus Chemicals Canada LP ("**Canexus**"), in which it was proposed that the Commencement Date be amended to that date for all Affected Claims. This would affect the claims of those creditors arising in the period from January 17 to January 31, 2012 (the "**CBCA Period**"). In addition, the Supplier Applicants seek to amend the Critical Supplier Order to amend the date for which the

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

April 1, 2012

supplies of Critical Suppliers are covered by the Critical Supplier Charge to January 17 instead of February 7.

- 7.2 The Monitor has reviewed the Company's invoices received for the CBCA Period and based on that review, the total increase in credit granted to the Company by all of its suppliers during the CBCA Period was in the range of \$30 million. However, the Company made cash payments to suppliers in the CBCA Period totaling \$80 million in respect of outstanding amounts owing. Therefore, during the CBCA Period, the suppliers received the benefit of a net decrease in total credit exposure of approximately \$50 million.
- 7.3 In respect of the Critical Suppliers as a sub-set of all suppliers, the total increase in credit granted by this group of 16 suppliers to the Company during the CBCA Period was in the range of \$6 million. Payments to these suppliers in the CBCA Period for amounts owing totaled \$12 million. The result, therefore, was a net decrease in total credit exposure to the Critical Suppliers of approximately \$6 million in the CBCA Period.
- 7.4 Given the above, it is clear that on an overall basis, trade creditors received more in payments from the Company than credit was extended during the CBCA Period. Accordingly, the Monitor does not agree with the Supplier Applicants' assertion that they were prejudiced as a result of being obligated to continue to provide credit during the CBCA proceedings. In fact, it appears that their credit exposure was significantly reduced in that period and it would be inequitable to the Company to move the Commencement Date and require the Company to make additional supplier payments when in fact these suppliers as a whole have already received payments in excess of the credit they extended during the CBCA Period. These payments would also have the effect of significantly eroding the Company's liquidity.
- 7.5 Based on the foregoing, the Monitor does not consider it appropriate to amend the Commencement Date in the CCAA proceedings, either in respect of the Critical Suppliers or for the creditors as a whole
- 7.6 If the Court were minded to amend the Commencement Date as sought, in the Monitor's view, it would be appropriate to order that the payments received by the suppliers from the Company during the CBCA Period be treated as preferential payments and each supplier should be ordered to repay such payments.

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

April 1, 2012

8. RECOMMENDATIONS

- 8.1 The Monitor confirms its recommendations to the Court that:
- 8.1.1 the form of the SHPA be approved;
 - 8.1.2 the sale of the Poplar Land Sale Lots be approved;
 - 8.1.3 the applications of certain Critical Suppliers to amend or terminate the Critical Suppliers Order be dismissed, with leave to re-apply after the Monitor's report described above in paragraph 6.4.4; and
 - 8.1.4 the application of the Supplier Applicants to vary the Commencement Date of the CCAA proceedings be dismissed.
- 8.2 The Monitor also confirms its support for the proposed amendments to the SISF which are being completed on the basis of the approval of the relevant parties as provided in the SISF Procedures.

This report is respectfully submitted this 1st day of April, 2012.

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



Michael J. Vermette, CA, CIRP
Senior Vice President



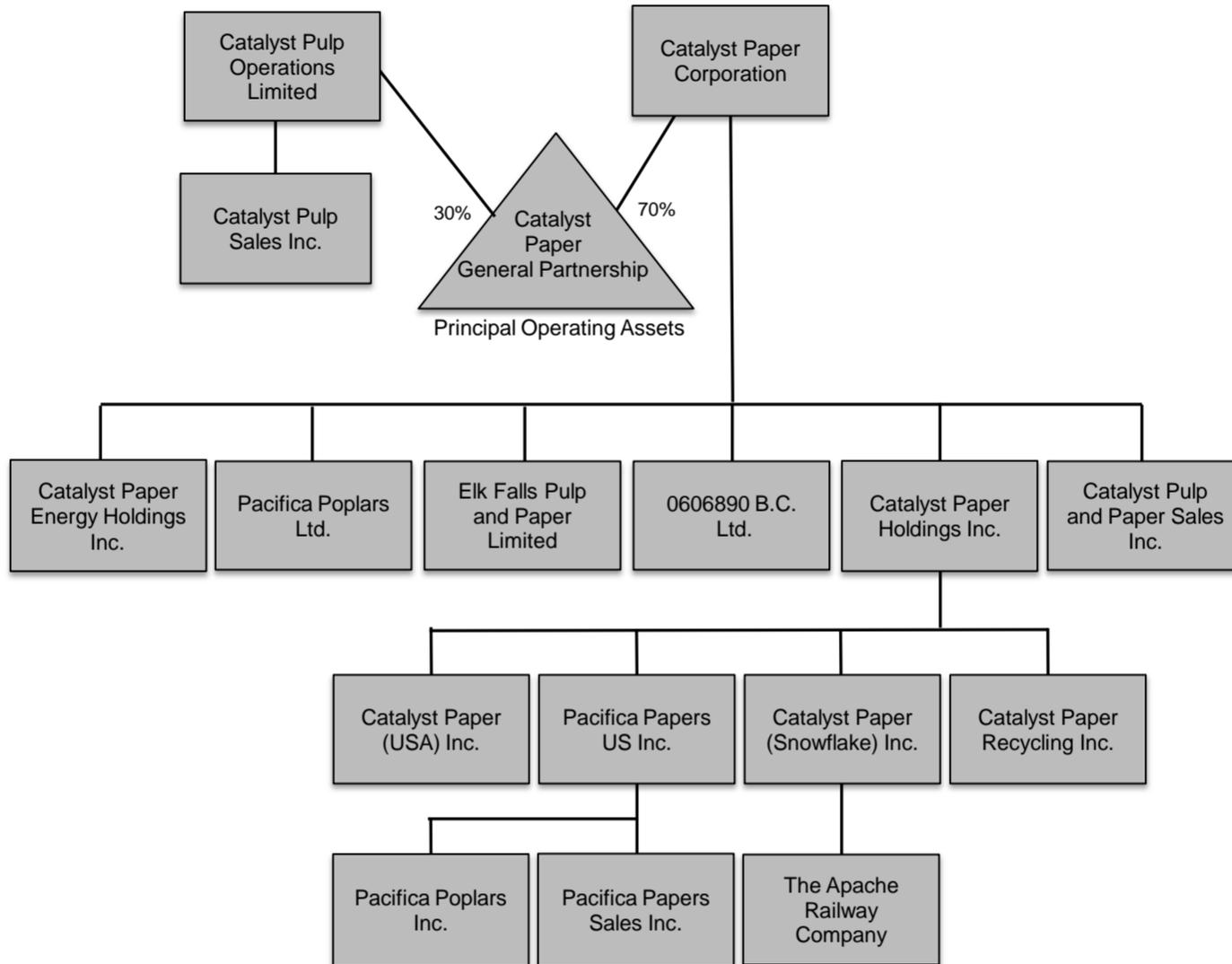
Mica Arlette, CA, CIRP
Senior Vice President

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.

Appendix B

Correspondence from Company and Monitor to certain Critical Suppliers



Blake, Cassels & Graydon LLP
Barristers & Solicitors
Patent & Trade-mark Agents
595 Burrard Street, P.O. Box 49314
Suite 2600, Three Bentall Centre
Vancouver BC V7X 1L3 Canada
Tel: 604-631-3300 Fax: 604-631-3309

Bill Kaplan, Q.C.
Dir: 604-631-3304
bill.kaplan@blakes.com

March 29, 2012

Reference: 93586/55

VIA E-MAIL

Davis LLP
2800 Park Place
666 Burrard Street
Vancouver, BC V6C 2Z7

Attention: Mary I.A. Buttery

Dear Ms. Buttery:

Re: Catalyst Paper Corporation et al

We have for reply your letter of March 28, 2012.

Your letter of March 28, 2012 raises literally pages of questions concerning the Monitor's Report and issues associated with the estate generally and the Critical Suppliers' Charge specifically. Given that you have filed a Notice of Application with respect to the Critical Suppliers' Charge, we are not certain whether your letter is merely tactical, or whether you anticipate a substantive response. Of course, to the extent you do anticipate a substantive response, virtually all of your issues are raised with the Monitor and its Report, rather than the Company. Nonetheless, it is patent from the extensive list of enquiries that you make, and the fact that many of them are actually answerable on the basis of review of the materials that have been provided to parties in the Report and other documents, that the Monitor could not possibly respond to your letter by April 2, 2012.

Notwithstanding the apparently tactical approach of your letter, it raises some issues that should be generally discussed among the parties. It is made clear from the Monitor's Report that, in the short term, liquidity does not allow any lifting of the charge and that such an order would be inconsistent with the order as originally granted. There is, therefore, time for the parties to engage a discussion concerning the appropriate future course of action with respect to the Critical Suppliers' Charge and other issues that you have raised in your correspondence.

In our view, the appropriate way forward is for counsel for the Critical Suppliers, the Monitor and its counsel and Company counsel, to meet to discuss a variety of issues including the operation of the charge to date, issues raised by your correspondence, and the longer term view of the relationship going forward to try to resolve some of these issues. We have proposed to the Monitor that the Monitor take steps to convene such a meeting, and we trust that you will see the value of a discussion. We are relatively confident that on review of the cash flows generally, the Court will be reluctant to disturb the charge, especially in light of the

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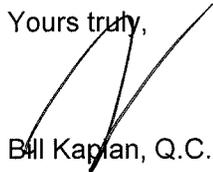
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* Associated Office

fact that the objective evidence on the ground is that the charge is operating as intended, your clients are being paid on a regular and secure basis and that with a Plan of Arrangement filed and a backup sale process in place, the security associated with the charge has been enhanced by the process. Nonetheless, our clients' preference is to resolve these matters consensually if possible.

Yours truly,



Bill Kaplan, Q.C.

WCK/atj

c: John F. Grieve, Fasken Martineau
Kibben Jackson, Fasken Martineau

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Bill Kaplan, Q.C.
Dir: 604-631-3304
bill.kaplan@blakes.com

March 30, 2012

Reference: 93586/55

VIA E-MAIL

Bull Housser & Tupper LLP
3000 Royal Center
1055 West Georgia Street
Vancouver, B.C. V6E 3R3

Attention: Steven Dvorak

Dear Mr. Dvorak:

Re: CCAA Proceedings - Catalyst Paper Corporation et al

We have for reply your letter of today's date concerning the critical suppliers issues and the Monitor's Report and referencing correspondence that was forwarded by counsel for Timber West on March 28, 2012.

We enclose a copy of our reply correspondence to Ms. Buttery concerning her March 28 correspondence. There is no reasonable prospect that the information requested in that correspondence could be compiled and made available to the parties by April 2, 2012. You will note in our correspondence to Ms. Buttery that we have proposed a meeting of critical suppliers, the Monitor and the Company to try to deal with some of those issues. Given the foster of issues set down for hearing for April 2 it is unlikely that the Timberwest motion will be heard in any event.

Yours truly,

Bill Kaplan, Q.C.

WCK/jau

c: John F. Grieve, Fasken Martineau

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Bill Kaplan, Q.C.
Dir: 604-631-3304
bill.kaplan@blakes.com

March 29, 2012

Reference: 93586/55

VIA E-MAIL

Davis LLP
2800 Park Place
666 Burrard Street
Vancouver, BC V6C 2Z7

Attention: Mary I.A. Buttery

Dear Ms. Buttery:

Re: Catalyst Paper Corporation et al

We have for reply your letter of March 28, 2012.

Your letter of March 28, 2012 raises literally pages of questions concerning the Monitor's Report and issues associated with the estate generally and the Critical Suppliers' Charge specifically. Given that you have filed a Notice of Application with respect to the Critical Suppliers' Charge, we are not certain whether your letter is merely tactical, or whether you anticipate a substantive response. Of course, to the extent you do anticipate a substantive response, virtually all of your issues are raised with the Monitor and its Report, rather than the Company. Nonetheless, it is patent from the extensive list of enquiries that you make, and the fact that many of them are actually answerable on the basis of review of the materials that have been provided to parties in the Report and other documents, that the Monitor could not possibly respond to your letter by April 2, 2012.

Notwithstanding the apparently tactical approach of your letter, it raises some issues that should be generally discussed among the parties. It is made clear from the Monitor's Report that, in the short term, liquidity does not allow any lifting of the charge and that such an order would be inconsistent with the order as originally granted. There is, therefore, time for the parties to engage a discussion concerning the appropriate future course of action with respect to the Critical Suppliers' Charge and other issues that you have raised in your correspondence.

In our view, the appropriate way forward is for counsel for the Critical Suppliers, the Monitor and its counsel and Company counsel, to meet to discuss a variety of issues including the operation of the charge to date, issues raised by your correspondence, and the longer term view of the relationship going forward to try to resolve some of these issues. We have proposed to the Monitor that the Monitor take steps to convene such a meeting, and we trust that you will see the value of a discussion. We are relatively confident that on review of the cash flows generally, the Court will be reluctant to disturb the charge, especially in light of the

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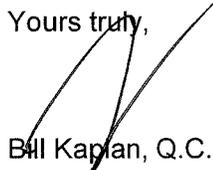
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fact that the objective evidence on the ground is that the charge is operating as intended, your clients are being paid on a regular and secure basis and that with a Plan of Arrangement filed and a backup sale process in place, the security associated with the charge has been enhanced by the process. Nonetheless, our clients' preference is to resolve these matters consensually if possible.

Yours truly,



Bill Kaplan, Q.C.

WCK/atj

c: John F. Grieve, Fasken Martineau
Kibben Jackson, Fasken Martineau

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----- Message from Grieve_John F. <jgrieve@fasken.com> on Sat, 31 Mar 2012 14:48:59 +0000 -----

To: "Dvorak, Steven" <sdd@bht.com>

cc: "michael.j.vermette@ca.pwc.com" <michael.j.vermette@ca.pwc.com>, "mica.arlette@ca.pwc.com" <mica.arlette@ca.pwc.com>, Jackson_Kibben <kjackson@fasken.com>

Subject
: Catalyst

Mr. Kaplan has been kind enough to forward to us a copy of his letter to you of March 30th, a copy of which is attached. We also got a copy of his letter to Ms. Buttery referred to therein. Unfortunately, the monitor has been fully engaged in other matters and has not had time to address all of Mr. Buttery's concerns. We agree with Mr. Kaplan that it would be advisable for the parties and their advisors to sit down and try and work out something practical. Please let me know if your clients would be interested in joining in that discussion. Thanks.

John F. Grieve
Chair, Global Insolvency and Restructuring Group
Fasken Martineau DuMoulin LLP
2900-550, Burrard Street
Vancouver B.C.
V6C 0A3
Direct line 604 631-4772
email: jgrieve@fasken.com
asst. Sharon Wong
asst.'s direct line 604 631-3214
asst.'s email swong@fasken.com



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----- Message from Grieve_John F. <jgrieve@fasken.com> on Sat, 31 Mar 2012 14:35:47 +0000 -----

To: "Buttery, Mary" <mbuttery@davis.ca>

cc: "michael.j.vermette@ca.pwc.com" <michael.j.vermette@ca.pwc.com>, "mica.arlette@ca.pwc.com" <mica.arlette@ca.pwc.com>, Jackson_Kibben <kjackson@fasken.com>

Subject
: Catalyst

Thank you for your letter of March 28, 2012 which we did not see until the 29th. In your letter you've asked a number of very detailed questions, akin to interrogatories, that the Monitor does not have time to respond to on the granular level requested in the time available to it. We apologize for not making specific response to your letter of the 9th. I thought I had discussed with you the inability of the monitor to produce a cash flow on or about the 11th of March. The judge chose that date as a reasonable one to allow the critical suppliers to consider revisiting the issue, but as noted in the Monitor's 4th report and as amplified here, the company goes through month end cycles that it has to complete before the Monitor can produce or assist in the production of meaningful cash flows. The Monitor had hoped to complete that process by the 23rd, but as events transpired it was unable to do that until the 28th. Rest assured however, the Monitor is sensitive to the concerns of all the Critical Suppliers and was confident that the cash flow was tight enough that the Critical Suppliers would need to stay in place at the very least until early April.

In the mean time Mr. Kaplan has forwarded to us a copy of his letter to you of March 29th, 2012.

Given the numerous demands on the company's time and the Monitor's time in respect of Monday's application, we are simply not going to be able to address all of your concerns and questions by Monday. The simple answer is that the Monitor has considered the material issues you've raised and the Monitor is still of the view that the CS charge should remain. It may be that it could be reduced somewhat or could float depending on where the company is in reality as against the projections contained in the cash flow. What the Monitor would like to see happen is Mr. Kaplan's suggestion that the Monitor and its counsel sit down with the Company, the Critical Suppliers and their counsel to see if something practical can be worked out that protects the interests of all and improves the potential for the company to emerge. That can't happen by Monday, but it could certainly happen next week and if we aren't able to broker something that works we could then return to court with time to address all of your concerns.

We would ask that you consider this and let us know if this would be of interest to your client. Regards.

John F. Grieve
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email: jgrieve@fasken.com
asst. Sharon Wong
asst.'s direct line 604 631-3214
asst.'s email swong@fasken.com



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