

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 NINTH REPORT TO COURT
[WITHOUT SUPPORTING SCHEDULES TO APPENDIX B]**

April 10, 2012



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

April 10, 2012

TABLE OF CONTENTS

1.	INTRODUCTION	1
2.	BACKGROUND.....	1
3.	REVIEW OF THE 2016 SECURITY	2
4.	ASSETS NOT ENCUMBERED BY THE 2016 NOTES SECURITY	2
5.	ESTIMATED VALUE OF THE SENIOR SECURED NOTES EXCLUDED ASSETS	4

APPENDICES

- A. Petitioning Parties Organization Chart**
- B. Estimated Value of the Senior Secured Notes Excluded Assets**

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

April 10, 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 April 30, 2012.
- 1.3 This is the Monitor’s Ninth Report to Court. The purpose of this report is to advise the Court of the following matters:
 - 1.3.1 The results of the Monitor’s counsel’s review of the security held by the 2016 Noteholders (the “**2016 Notes Security**”); and
 - 1.3.2 The Monitor’s estimated value of the assets that are not encumbered by the 2016 Notes Security (the “**Senior Secured Notes Excluded Assets**” – note that this is the same definition as is used in the Sale and Investor Solicitation Process document that has been approved by the Court).
- 1.4 Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars. Capitalized terms not otherwise defined herein are as defined in the Company’s application materials in the CCAA proceedings.

2. BACKGROUND

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

www.pwc.com/car-catalystpaper

- 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

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

April 10, 2012

on the Monitor's website. The Monitor will continue to post regular updates to the website and will add prescribed and other materials as required.

- 2.3 The Company has also made applications to the United States Bankruptcy Court for the District of Delaware (the "**US Court**") for provisional relief pursuant to Chapter 15 of the US Bankruptcy Code. On March 5, 2012, the US Court made a final order granting recognition of these proceedings as a foreign main proceeding pursuant to Chapter 15 of the US Bankruptcy Code. The Monitor's website also contains materials relating to the proceedings in the US Court.

3. REVIEW OF THE 2016 SECURITY

- 3.1 Fasken Martineau DuMoulin ("**Fasken Martineau**"), as Canadian counsel to the Monitor, has reviewed the 2016 Notes Security, including the security agreements and mortgages executed by the Company and certain of its related entities in favour of Computershare Trust Company of Canada as collateral trustee (the "**Collateral Trustee**") on behalf of itself, Wilmington Trust FSB, as trustee under note indentures dated as of March 10, 2010 and May 19, 2010, and the Secured Debtholders, including the Noteholders (as those terms are defined in the 2016 Notes Security).
- 3.2 Fasken Martineau has provided its opinion to the Monitor in which it confirms that, subject to customary assumptions and provisos, the 2016 Notes Security is valid and enforceable against a trustee in accordance with its terms in all jurisdictions in Canada where secured assets are located, and constitutes a charge on those assets granted for valuable consideration.
- 3.3 Fasken Martineau has engaged Perkins Coie to opine on the validity and enforceability of the 2016 Notes Security in the United States, but has not yet received that opinion. The Monitor will advise further when that opinion is received.

4. ASSETS NOT ENCUMBERED BY THE 2016 NOTES SECURITY

- 4.1 By its terms, the 2016 Notes Security specifically excludes certain assets of the Company (as defined above in 1.3.2, the "**Senior Secured Notes Excluded Assets**"). The description of the Senior Secured Notes Excluded Assets is set forth in the definition of "Excluded Assets" in the March 10, 2010 Indenture issued by Catalyst Paper Corporation in favour of the Collateral Trustee, a copy of which is attached as

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

April 10, 2012

Exhibit "B" to Affidavit #3 of Brian Baarda sworn January 31, 2012 (see pp. 0291 and 0292).

- 4.2 While it would be impossible to provide an exhaustive description or list of what comprises the Senior Secured Notes Excluded Assets, the Monitor, with the assistance of the Company, has endeavoured to identify the significant or otherwise noteworthy Senior Secured Notes Excluded Assets.
- 4.3 Based on the Monitor's review of the 2016 Notes Security and the assets of the Company, the principal Senior Secured Notes Excluded Assets consist of the following:
 - 4.3.1 The Powell River Lands - More precisely, a mortgage held by 0606890 B.C. Ltd. ("060") over five parcels of lands located in the Powell River area owned by PRSC Limited Partnership;
 - 4.3.2 The Surrey Distribution Centre and Barges – A distribution centre located in Surrey, B.C. leased by the Company from Wesik Enterprises Ltd. and five barges, three of which are provided to the Company by Sylvan Marine Services Ltd. and two of which are financed by HSBC Bank Canada. The Company distributes virtually all of its finished product through the Surrey Distribution Centre.
 - 4.3.3 Certain Fibre Supply Agreements – Three supply agreements, one with each of Tolko Industries Ltd., International Forest Products Ltd. and Western Forest Products Ltd., pursuant to which those parties are obligated to supply certain minimum volumes of residual wood chips and other products to the Company;
 - 4.3.4 The Port Alberni Water Lot Leases – Two leases of water lots by the Company's Port Alberni pulp mill;
 - 4.3.5 Mobile Equipment – Certain Serial Numbered Goods (as defined in the B.C. *Personal Property Security Act*);
 - 4.3.6 The Poplar Farms – 23 properties, two located in B.C. and 21 located in Washington State, that were historically used by the Company as poplar plantations;

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

April 10, 2012

- 4.3.7 The Powell River Energy Interest – Consisting of: (i) the Company's 50.001% interest in Powell River Energy Inc. ("PREI"), which owns the Powell Lake and Lois Lake hydro generating stations located near Powell River, B.C.; (ii) the Company's 49.95% interest in Powell River Energy Limited Partnership, which sells the power produced by PREI to Catalyst; and (iii) certain promissory notes issued by PREI in favour of Catalyst; and
- 4.3.8 The Elk Falls Lands – PID 001-233-432 – The parcel of lands at Elk Falls on which the Elk Falls pulp mill is located.
- 4.4 There may be additional assets of the Company that comprise the Senior Secured Notes Excluded Assets, such as the Company's rights under various contracts. However, the Monitor believes that any such assets are likely of insignificant value or the asset is so inexorably connected with and to the Company's business and other assets that it is incapable of being independently monetized.
- 4.5 The Monitor wishes to note that while the Senior Secured Notes Excluded Assets are not encumbered by the 2016 Notes Security, all but the Powell River Energy Interest are subject to a number of Court-ordered charges, including the Administration Charge, the DIP Lender's Charge, the Critical Suppliers' Charge and the D&O Charge. Whether any of the beneficiaries of the aforementioned charges will need to realize on the Senior Secured Notes Excluded Assets in order to recover any amounts owing to them, or whether they must first look to other assets for that purpose, is beyond the scope of this Report.

5. ESTIMATED VALUE OF THE SENIOR SECURED NOTES EXCLUDED ASSETS

- 5.1 The Monitor has performed extensive analysis to determine the values of the Senior Secured Notes Excluded Assets. A summary of the Monitor's estimated value range for each of the Senior Secured Notes Excluded Assets is attached as Appendix B to this Report. As detailed in Appendix B, the Monitor has estimated the range in value of the Senior Secured Notes Excluded Assets to be between \$52 million and \$69 million.
- 5.2 The Senior Secured Notes Excluded Assets enumerated in Appendix B have been divided into 2 categories: those assets which the Purchaser intends to acquire pursuant to the Stalking Horse Purchase Agreement (the "**SHPA**"), and those assets which will not be acquired under the SHPA. A summary is set out below:

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

April 10, 2012

	Estimated Value	
	Low	High
	(\$millions)	(\$millions)
Assets to be acquired by the Purchaser	20	25
Assets not to be acquired by the Purchaser	32	44
Total Senior Secured Notes Excluded Assets	52	69

- 5.3 The Monitor notes that the Powell River Lands (or, more specifically, the mortgage of those lands held by 060) has been included as an asset to be acquired by the Purchaser under the SHPA. In the Monitor's view, this asset is not integral to the ongoing operations of the Powell River Mill or any other of the Company's operations and, accordingly, it is unclear why this asset has not be excluded from the SHPA. The Monitor intends to raise this issue with the 2016 Noteholders and it may be that the Purchaser Disclosure Letter will be revised to have this item listed as an Excluded Asset under the SHPA.
- 5.4 The Monitor wishes to point out to the Court and other interested parties that this analysis was challenging to complete and, due to the nature of the Senior Secured Notes Excluded Assets, the Monitor's valuation analysis required a significant amount of professional judgment. This challenging situation gave rise to a wide range in the estimation of values with respect to certain of the Senior Secured Notes Excluded Assets. Set out below are specific matters that the Monitor has considered and dealt with in preparing the estimated values:
- 5.4.1 No values were ascribed to assets that could not be readily sold, transferred or assigned in a liquidation scenario (i.e. certain of the fibre supply agreements);
 - 5.4.2 Assets were valued at their net realizable amounts after providing for costs required to transact a sale (Note: in the case of the Elk Falls lands, we ascribed no value because the remediation costs were greater than the projected net sales proceeds);
 - 5.4.3 Key operating agreements (i.e. leases, guarantees, contracts, etc.) have been reviewed by the Monitor and Fasken Martineau to highlight and account for any items that could potentially have a negative impact on the saleability and/or value of the agreement;

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

April 10, 2012

- 5.4.4 The asset values reflect amounts that third party industry purchasers might be prepared to pay and were not premised on the internal (cost-saving) values to Catalyst;
 - 5.4.5 Assets that might require a significant amount of time to sell were discounted by a liquidity factor to take into account pricing aimed at inducing a timely transaction; and
 - 5.4.6 Where appropriate, third party experts were retained to assist in estimating values (e.g. a third party appraisal was obtained for the mobile equipment).
- 5.5 The Monitor has performed a great deal of work in determining ranges of values for the Senior Secured Notes Excluded Assets and has prepared detailed commentary on the valuation process together with backup schedules summarizing the assumptions and calculations underlying its conclusions. This backup work references confidential competitive information that the Company and Monitor believe should not be made publicly available, particularly to the Company's competitors and suppliers, or to prospective purchasers of the assets as doing so may negatively affect the sale process in respect of the assets.
- 5.6 Based on the above concern, the Monitor is filing and delivering to all stakeholders this Ninth Report, which provides only its final determination as to the range of values for the Senior Secured Notes Excluded Assets, without appending the underlying backup work. Concurrently, the Monitor is seeking to file under seal a Supplement to this Ninth Report, which provides the backup work in respect of the Monitor's conclusions as to value ranges. The Monitor intends to deliver that Supplemental Report to the Company, the 2016 Noteholders and counsel for the ad hoc group of 2014 Noteholders, each of whom has agreed to keep this information confidential and each of whom has a vested interest in not disclosing any competitive information. With the consent of the Company, the Monitor will also deliver copies of all or some of the backup work to other stakeholders, provided: (i) such stakeholder executes a confidentiality agreement; and, (ii) the schedules to be delivered to that stakeholder do not contain competitive information relevant to that stakeholder or non-public information relevant to a potential purchaser of any of the assets.

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

April 10, 2012

This report is respectfully submitted this 10th day of April, 2012

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

A handwritten signature in blue ink, appearing to read "M. Vermette", with a stylized flourish at the end.

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

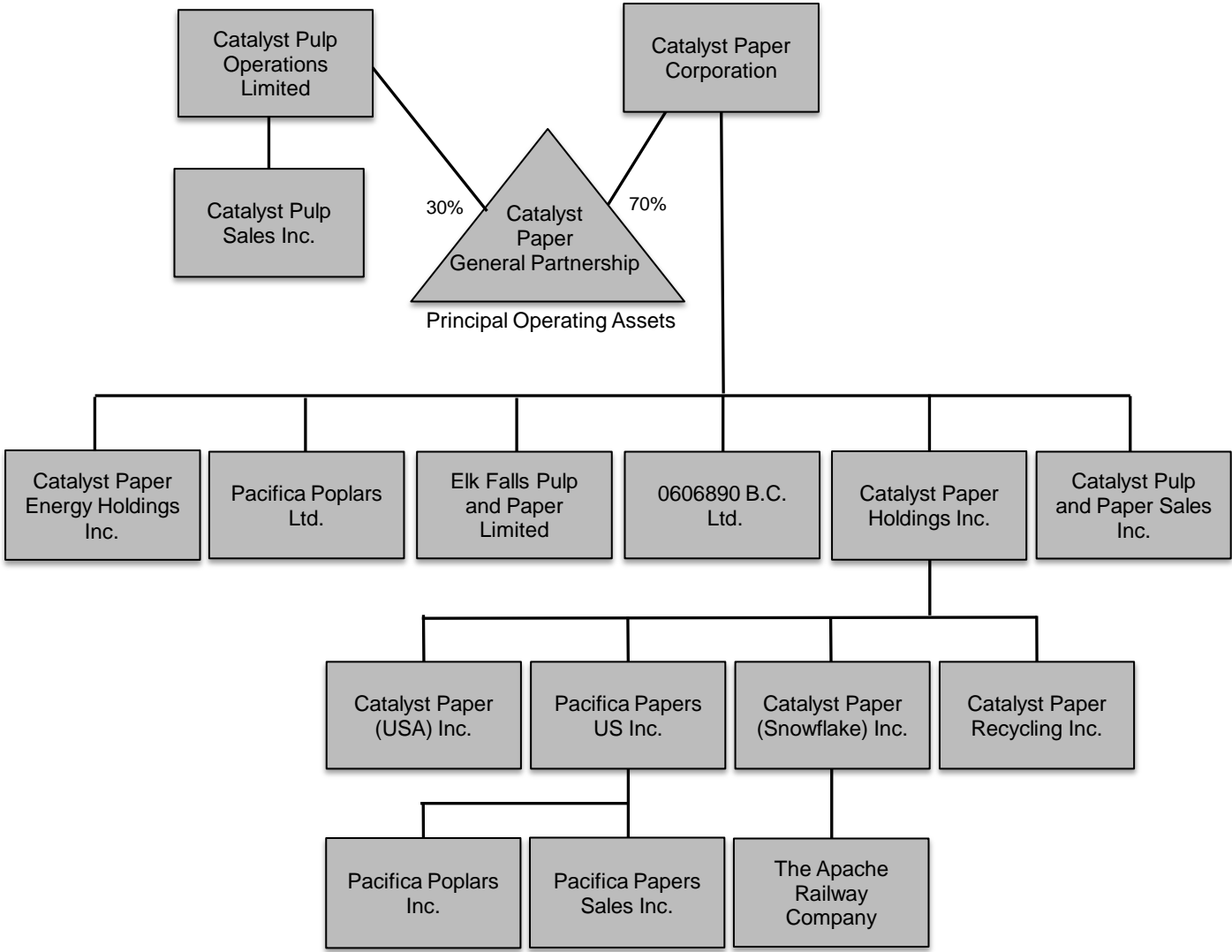
A handwritten signature in blue ink, appearing to read "R. Sandy", with a large, sweeping loop at the end.

Robert J. Sandy, CA, CBV, IFA

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

Estimated Value of the Senior Secured Notes Excluded Assets

Catalyst Paper Corporation
2016 Senior Secured Notes Excluded Assets - Estimated Value
April 10, 2012

Asset Description	Low \$	High \$	Schedule
<u>Assets Acquired by the Purchaser</u>			
PRSC Limited Partnership	2,700,000	3,150,000	1
Surrey Distribution Centre + barges	6,000,000	8,000,000	2
Fibre supply agreements	8,600,000	10,700,000	3
Port Alberni water lot leases	-	-	Note 1
Mobile equipment	2,900,000	3,600,000	4
	20,200,000	25,450,000	
<u>Assets Not Acquired by the Purchaser</u>			
Poplar farms	5,900,000	6,700,000	5
Powell River Energy	26,000,000	37,200,000	6
Elk Falls lands (PID #001-233-432)	-	-	Note 2
	31,900,000	43,900,000	
	52,100,000	69,350,000	

Note 1: Estimated to have no value - virtually all shipments and deliveries are by truck or rail.

Note 2: Estimated to have no value due to projected remediation costs.