

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 TWELFTH REPORT TO COURT

May 3, 2012



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1. INTRODUCTION

- 1.1 On January 31, 2012 (the “**Order Date**”), on the application of Catalyst Paper Corporation and the entities included in Appendix A (collectively referred to as “**Catalyst**” or the “**Company**”), the Supreme Court of British Columbia (the “**Court**”) made an order (the “**Initial Order**”) granting Catalyst protection from its creditors pursuant to the *Companies’ Creditors Arrangement Act* (the “**CCAA**”). Under the Initial Order, PricewaterhouseCoopers Inc. was appointed Monitor of the Company (the “**Monitor**”).
- 1.2 Currently, there is a stay of proceedings under the CCAA that continues until June 30, 2012.
- 1.3 This is the Monitor’s Twelfth Report to Court. The purpose of this report to advise the Court with respect to the following matters to be addressed at the hearing scheduled for May 7, 2012:
 - 1.3.1 Approval of the sale of Roney Property and the Pound Property, as hereinafter defined; and
 - 1.3.2 Approval of an amendment to the Sale Agreement for the Misich/Hansen Lands (as hereinafter defined) that was previously 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

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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. SALE OF RONEY AND POUND POPLAR LAND LOTS

Background

- 3.1 As described in Affidavit #4 of Robert Lindstrom dated **May 2, 2012** (the "**4th Lindstrom Affidavit**"), the Company owns approximately 1,800 acres of poplar farm plantation lands in Snohomish County, Washington State (the "**Poplar Land**").
- 3.2 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.
- 3.3 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.
- 3.4 As detailed in the Monitor's Eighth Report, the Company previously sought and obtained the Court's approval to sell two parcels of the Poplar Land (together, the "**Misich/Hansen Property**") representing 898 acres of the Poplar Land following the marketing of the Poplar Land by the Broker.
- 3.5 The Company is currently seeking the Court's approval to sell two additional parcels of Poplar Land (respectively, the "**Pound Property**" and the "**Roney Property**"),

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together representing approximately 130 acres of the Poplar Land, for total proceeds of approximately US \$452,250, as a result of a similar marketing process.

Pound Property Sales Process

- 3.6 The details and results of the process of marketing the Pound Property (the “**Pound Property Sales Process**”) are set out in the 4th Lindstrom Affidavit. The Monitor has reviewed the Pound Property Sales Process materials, and has had discussions with the individuals at Catalyst who were involved in the Pound Property Sales Process in order to gain an understanding of the actions taken in and the results of the Pound Property Sales Process.
- 3.7 The Monitor notes the following key activities in and results of the Pound Property Sales Process based on information provided by the Company, and as set out in the 4th Lindstrom Affidavit:
- 3.7.1 The Pound Property has been listed since late 2008 on a multiple listing service (“**MLS**”) in Washington State, and has been actively marketed since that time. The MLS listings allow both brokers and consumers from around the world to access the Poplar Land listings, including the listing in respect of the Pound Property. Each MLS listing for the Poplar Land details the asking price, acreage, county, and other relevant details of the respective parcel of land.
- 3.7.2 The Pound Property is a single parcel of 38.66 acres and contains standing poplar trees, tree stumps, and wood debris. Before being useable for farming, the Pound Property requires a cleanup of the land and more time to pass for the decomposition of certain wood debris. Additionally, the Pound Property is subject to various use restrictions and requirements, imposed by both federal and state law in the USA, which limit the marketability of the Pound Property.
- 3.7.3 The Pound Property was originally listed for US \$247,000 in late 2008. In October 2010, the list price was reduced to US \$213,000, and was eventually reduced again to US \$160,000 when the Company decided not to pursue a costly and time-consuming cleanup of the Pound Property and to sell the Pound Property on an “as-is” basis.

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- 3.7.4 Since the Pound Property was listed in 2008, three prospective buyers have made offers on the property, but the Company was ultimately unable to come to any agreement with any of those parties due to the factors outlined above and the inability of certain purchasers to secure financing.
- 3.8 In mid-March 2012, the Company received an offer from Kuo-Chao Wang and Shu-Hui Lo (collectively, the “**Pound Buyers**”) to purchase the Pound Property for US \$135,000. The Company made a counteroffer in the amount of US \$150,000 (the “**Pound Purchase Price**”) which the Pound Buyers accepted on March 15, 2012. Catalyst’s counteroffer and negotiation of a purchase agreement with the Pound Buyers was based on the following key considerations:
- 3.8.1 The Pound Property comprises 38.66 acres of land and was listed on MLS for a combined value of US \$160,000;
- 3.8.2 The Pound Purchase Price is US \$10,000 (or approximately 6%) less than the MLS listing price. The Broker has informed Catalyst that there is currently a shortage of buyers for the Poplar Lands and a low interest level in properties of this type. Finding an offer that exceeds the Pound Purchase Price may not be achievable in the short term;
- 3.8.3 The Pound Property requires certain cleanup activities to be completed before it would be suitable for farming. The time and financial costs associated with these cleanup activities further reduces the number of potential purchasers for the Pound Property;
- 3.8.4 The Company previously received three offers for the purchase of the Pound Property. All of the previous offers were not proceeded with for various reasons, including low bid prices, cleanup costs and restrictions associated with the Pound Property, and financing issues with the potential purchasers;
- 3.8.5 The sale of the Pound Property provides the Company with additional future liquidity and will avoid the payment of various ongoing maintenance costs and property taxes associated with the Pound Property;
- 3.8.6 The agreement with the Pound Buyers is an “as-is, where is” sale and Catalyst believes that the Pound Buyers are able to close the proposed transaction. The

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Monitor is informed by the Company that the closing conditions (other than Court and Monitor approval) have been waived by the Pound Buyers; and

- 3.8.7 Catalyst believes that the Pound Purchase Price represents the highest and best offer for the Pound Property.

Pound Sale Agreement

- 3.9 Pacifica Poplars Inc. ("**Pacifica**"), a wholly owned subsidiary of Catalyst Paper Corporation), is the registered owner of the Pound Property. Pacifica and the Pound Buyers have entered into a Vacant Land Purchase and Sale Agreement (the "**Pound Property Agreement**"). The Monitor has had an opportunity to review the Pound Property Agreement and notes the following:

- 3.9.1 The key terms of the Pound Property Agreement are consistent with the key elements of the March 2012 offer from the Pound Buyers described above, as renegotiated to reflect the Pound Purchase Price;
- 3.9.2 The Pound Property Agreement has been signed and executed by Pacifica and the Pound Buyers. The Pound Property Agreement is subject to approval of the Monitor, the Court and the U.S. Court;
- 3.9.3 The Pound Property Agreement is scheduled to close on or before May 18, 2012 and is subject to a seven day feasibility period; and
- 3.9.4 Pacifica will receive the Pound Purchase Price for the Pound Property less a commission of 5% payable to the Broker.

Roney Property Sales Process

- 3.10 The details and results of the process of marketing the Roney Property (the "**Roney Property Sales Process**") are set out in the 4th Lindstrom Affidavit. The Monitor has reviewed the Roney Property Sales Process materials, and has had discussions with the individuals at Catalyst who were involved in the Roney Property Sales Process in order to gain an understanding of the actions taken in and the results of the Roney Property Sales Process.

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- 3.11 The Monitor notes the following key activities in and results of the Roney Property Sales Process based on information provided by the Company, and as set out in the 4th Lindstrom Affidavit:
- 3.11.1 Similar to the Pound Property detailed above, the Roney Property has been listed since September 2008 on a MLS in Washington State, and has been actively marketed since that time.
 - 3.11.2 The Roney Property consists of 91.62 acres in the aggregate. Certain portions of the Roney Property have been cleared and constitute tillable land; however, other portions contain standing trees, tree stumps, hog fuel piles, and wood debris, making these areas currently unusable for farming purposes. Before being useable for farming, the Roney Property requires a cleanup of the land and more time to pass for the decomposition of certain wood debris. Additionally, the Roney Property is subject to various use restrictions and requirements, imposed by both federal and state law in the USA, which limit the marketability of the Roney Property.
 - 3.11.3 The Roney Property was originally listed with another parcel of Poplar Land for US \$650,000. In October 2010, the Company listed the Roney Property separately at a total asking price of US \$495,000. Due to the lack of interest in the Roney Property and the declining value of surrounding properties, the Company decided to further drop the asking price to US \$320,000 on November 16, 2010.
 - 3.11.4 Since the Roney Property was initially listed in 2008, the Company has not received any prior offers on the Roney Property.
- 3.12 On February 13, 2012, the Company received an offer from Duck Haven Farms L.L.C. (the "**Roney Buyer**"), a Washington state limited liability company to purchase the Roney Property for a net purchase price of US \$282,000. Over the weeks following, the Company and the Roney Buyer each made a number of counteroffers. Following these negotiations between the Company and the Roney Buyer, the parties agreed to a purchase price of US \$302,250 (the "**Roney Purchase Price**") for the Roney Property. Catalyst's negotiations with the Roney Buyer and acceptance of the Roney Purchase Price were based on the following key considerations:

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- 3.12.1 The Roney Property comprises 91.62 acres of land and was listed on MLS for a combined value of US \$320,000;
- 3.12.2 The Roney Purchase Price is US \$17,750 (or approximately 5.5%) less than the MLS listing price. The Broker has informed Catalyst that there is currently a shortage of buyers for the Poplar Lands and a low interest level in properties of this type. Finding an offer that exceeds the Roney Purchase Price may not be achievable in the short term;
- 3.12.3 The Roney Property requires certain cleanup activities to be completed before the entire land would be suitable for farming. The time and financial costs associated with these cleanup activities further reduces the number of potential purchasers for the Roney Property;
- 3.12.4 The Company has not received any prior offers on the Roney Property, despite the long duration of the marketing period for the property. The Company believes that the cleanup costs and restrictions associated with the Roney Property, the general lack of interest in properties of this type, and the difficulty of securing adequate financing in the current economic climate have all contributed to the difficulty faced by the Company in its attempt to sell the Roney Property;
- 3.12.5 The sale of the Roney Property provides the Company with additional future liquidity and will avoid the payment of various ongoing maintenance costs and property taxes associated with the Roney Property;
- 3.12.6 The agreement with the Roney Buyer is an "as-is, where is" sale and Catalyst believes that the Roney Buyer is able to close the proposed transaction. The Monitor is informed by the Company that the closing conditions (other than Court and Monitor approval) have been waived by the Roney Buyers; and
- 3.12.7 Catalyst believes that the Roney Purchase Price represents the highest and best available offer for the Roney Property.

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Roney Sale Agreement

- 3.13 Pacifica (the registered owner of the Roney Property) and the Roney Buyer have entered into a Vacant Land Purchase and Sale Agreement (the “**Roney Property Agreement**”). The Monitor has had an opportunity to review the Roney Property Agreement and notes the following:
- 3.13.1 The key terms of the Roney Property Agreement are consistent with the key elements of the final negotiated offer from the Roney Buyer described above;
 - 3.13.2 The Roney Property Agreement has been signed and executed by Pacifica and the Roney Buyer. The Roney Property Agreement is subject to approval of the Monitor, the Court and the U.S. Court;
 - 3.13.3 The Roney Property Agreement is scheduled to close on or before May 18, 2012; and
 - 3.13.4 Pacifica will receive the Roney Purchase Price for the Roney Property less a commission of 5% payable to the Broker.

Conclusions

- 3.14 In the Monitor's view, the Pound Sales Process and the Roney Sales Process undertaken by the Company were structured and carried out in a manner that provides reasonable assurance that the overall sale proceeds from the Pound Property and the Roney Property represent the maximum value that can be achieved in the current market. The Monitor supports the Company's application for Court approval of the Pound Property Agreement and the Roney Property Agreement and authority to enter into the transactions contemplated by the Pound Property Agreement and the Roney Property Agreement.
- 3.15 The Monitor understands that the assets to be realized pursuant to the Pound Property Agreement and the Roney Property 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 transactions shall stand in the place and stead of the Pound Property and the Roney Property, without prejudice to the Claims originally attached to the Pound

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Property and the Roney Property. The proceeds from the sales are to be held by the Monitor pending further Order of the Court.

4. REVISED PURCHASE PRICE FOR MISICH/HANSEN PROPERTY

- 4.1 On April 4, 2012, this Court approved a transaction (the “**Transaction**”) contemplated by an agreement of purchase and sale (the “**M/H Sale Agreement**”) between Pacifica and US Golden Eagle Farms LP (“**Golden Eagle**”) to acquire the Misich/Hansen Property.
- 4.2 The background to this transaction, including the sale process pursued by the Company prior to the CCAA proceedings in respect of the Poplar Land, and the Monitor’s views on the appropriateness of the Transaction, were set out in the Monitor’s Eighth Report. At that time, the Monitor supported the Company’s application for Court approval of the M/H Sale Agreement and authority to enter into the Transaction.
- 4.3 The M/H Sale Agreement included certain conditions precedent to closing, which allowed Golden Eagle to terminate the Sale Agreement if those conditions were not met. The relevant conditions were outstanding at the time the Court approved the Transaction, and Pacifica and Golden Eagle required additional time to resolve these conditions.
- 4.4 The Monitor is informed by the Company that the outstanding issues with Golden Eagle have now been resolved. Pursuant to the terms of an addendum/amendment to the Purchase and Sale Agreement (the “**Addendum**”) Golden Eagle has agreed to, *inter alia*, waive its termination and revocation rights and the remaining unfulfilled conditions to closing under the M/H Sale Agreement. In consideration for this, Pacifica and Golden Eagle have agreed to reduce the purchase price in the transaction by US \$250,000, from US \$3,600,000 to US \$3,350,000.
- 4.5 The Company is now seeking the Court’s approval of the Addendum to the Transaction. The only remaining condition precedent to the M/H Sale Agreement, based on the terms of the Addendum, is the approval of the Monitor, this Court, and the US Court (which approval is being sought on May 14, 2012).
- 4.6 The Monitor remains of the view that the sale process for the Misich/Hansen Property was structured and carried out in a way that provides reasonable assurance that the

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overall sale proceeds from the Misich/Hansen Property represents the maximum value that can be achieved in the current market. While the original Transaction could not close as a result of the outstanding issues referred to above, the Monitor understands that, following the resolution of those issues, there are no further such impediments to closing other than Court and Monitor approval of the Addendum.

- 4.7 The Monitor's view of the reasonableness of the Transaction has not changed as a result of the reduction made to the purchase price. The Monitor notes that the previous offers for purchase of the Misich/Hansen Property (prior to Pacifica and Golden Eagle entering into the M/H Sale Agreement) were not proceeded with for various reasons, and the Monitor understands that there is not currently an alternate purchaser of the Misich/Hansen Property for a value in excess of the revised purchase price from Golden Eagle.
- 4.8 The Monitor understands that the parcels which compose the Misich/Hansen Property are Excluded Assets and not subject to the First Lien Note Security, but are subject to the DIP Lender's Charge. As provided in the Order granted on May 4, 2012, the proceeds from the Transaction shall stand in the place and stead of the Misich/Hansen Property, without prejudice to the Claims originally attached to the Misich/Hansen Property. The proceeds from the sale are to be held by the Monitor pending further Order of the Court.

5. CONCLUSIONS

- 5.1 The Monitor confirms its recommendation to the Court that it grant Orders:
- 5.1.1 Approving the sale of the Pound Property and the Roney Property; and
 - 5.1.2 Approving the amendment of the Order approving the sale of the Misich/Hansen Property to reflect the terms of the Addendum.

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This report is respectfully submitted this 3rd day of May, 2012.

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



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

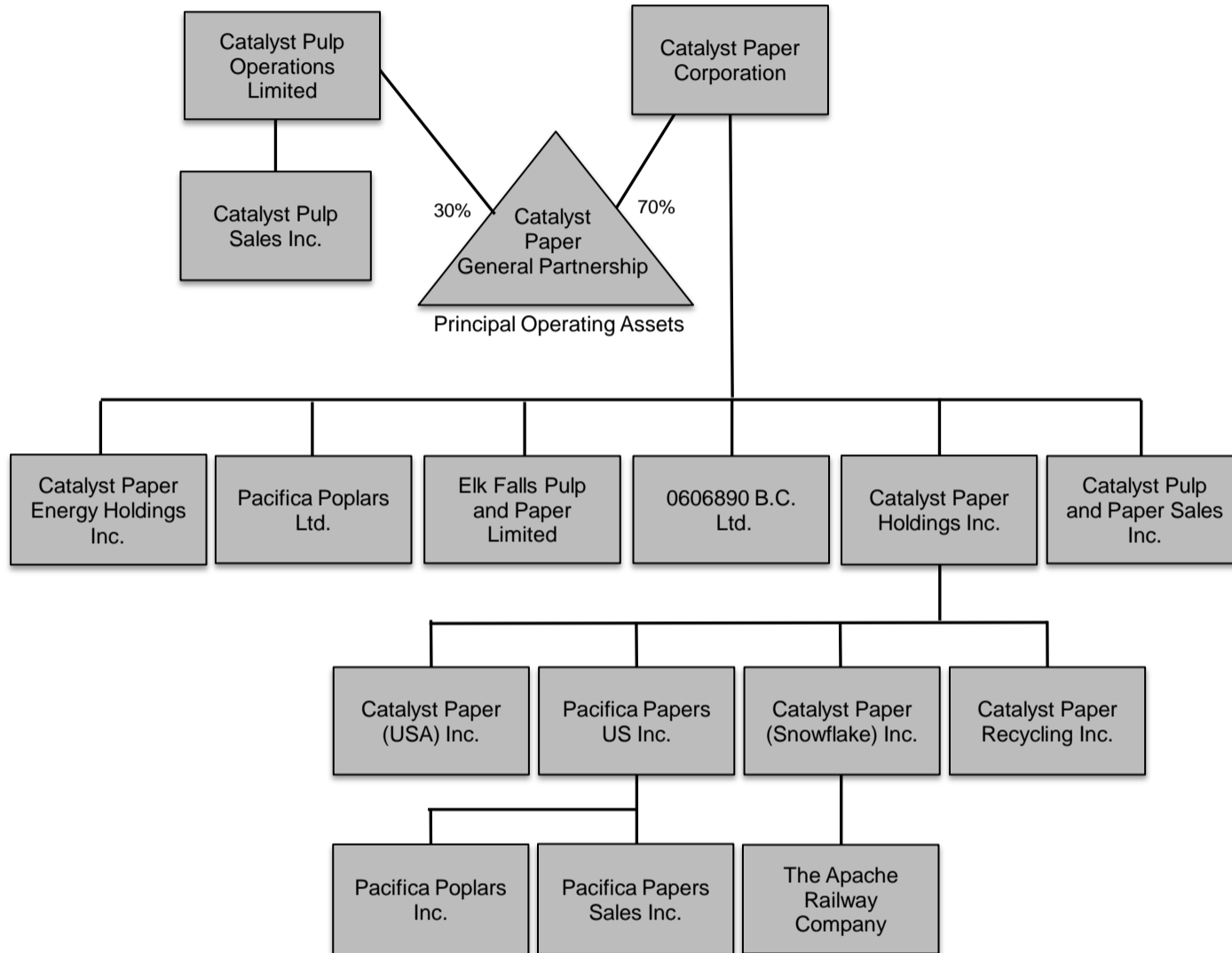


**Mica Arlette, CA, CIRP
Senior Vice President**

APPENDIX A

Petitioner Parties Organization Chart

**Catalyst Paper Corporation
Petitioner Parties Organization Chart**



Notes:

1. Unless otherwise noted, Common share ownership is 100%. Preferred share ownership is not identified in this chart.