

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 FOURTEENTH REPORT TO COURT

May 9, 2012



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

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1. INTRODUCTION

- 1.1 On January 31, 2012 (the "**Order Date**"), on the application of Catalyst Paper Corporation and the entities included in Appendix A (collectively referred to as "**Catalyst**" or the "**Company**"), the Supreme Court of British Columbia (the "**Court**") made an order (the "**Initial Order**") granting Catalyst protection from its creditors pursuant to the *Companies' Creditors Arrangement Act* (the "**CCAA**"). Under the Initial Order, PricewaterhouseCoopers Inc. was appointed Monitor of the Company (the "**Monitor**").
- 1.2 Currently, there is a stay of proceedings under the CCAA that continues until June 30, 2012.
- 1.3 This is the Monitor's Fourteenth 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 10th, 2012:
 - 1.3.1 Postponement of the Company's annual meeting of shareholders (the "**Shareholders Meeting**"); and
 - 1.3.2 Approval of the Powell River Property Tax Agreement (as defined below).
- 1.4 The Monitor is informed by counsel for the Company that it is not proceeding with its application for the relief sought in paragraphs 9 and 13 of the draft Order attached to its Notice of Application concerning the use of proceeds from the poplar land sales and from the transaction contemplated by the Powell River Property Tax Agreement to repay amounts outstanding under the credit facility made available by JPMorgan Chase Bank NA.
- 1.5 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, including the 8th Affidavit of Brian Baarda sworn on May 7, 2012 (the "**8th Baarda Affidavit**")

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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.

3. POSTPONEMENT OF ANNUAL MEETING OF SHAREHOLDERS

- 3.1 The Company is seeking an order postponing the Shareholders Meeting to a date to be set by further order of this Court. The 8th Baarda Affidavit sets out the Company's reasons for seeking a postponement of the Shareholders Meeting. The Company considers that it is prudent and necessary to postpone the Shareholders Meeting so that management of the Company can focus its resources on the ongoing CCAA proceedings. The Company expects to postpone the Shareholders Meeting until after the CCAA proceedings are completed.
- 3.2 The Monitor understands that the Company continues to make regular public disclosures in accordance with the Company's ongoing disclosure requirements under securities laws and regulations. As part of that reporting process, on March 1, 2012, the Company filed its annual report for the fiscal year ended December 31, 2011, and will be filing its first quarter 2012 financial statements on May 10, 2012. Financial and other disclosures by the Company in connection with the CCAA proceedings are publicly available on the Monitor's website.
- 3.3 The Monitor is of the view that it would be appropriate to postpone the Shareholders Meeting as requested by the Company. The Monitor agrees with the Company's view that it is appropriate for its energies to be focused on the CCAA proceedings, particularly at this time given the actions required for the upcoming meetings of

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creditors and, if the Company's plan of arrangement (the "**Plan**") is approved, the implementation of the Plan.

4. THE POWELL RIVER PROPERTY TAX AGREEMENT

- 4.1 The Company is seeking the Court's approval of an agreement (the "**Powell River Property Tax Agreement**") between Catalyst Paper Corporation and the City of Powell River (the "**City**") as set out in the 8th Baarda Affidavit. The Powell River Property Tax Agreement contemplates a number of transactions relating to the Company's relationship with the City, and is primarily intended to:
 - 4.1.1 Limit the property taxes payable by the Company in respect of its pulp and paper mill in Powell River (the "**Powell River Mill**") to \$2.25 million per annum until 2014, consistent with the terms of a previous agreement in principle ("**AIP**") negotiated between the Company and the City;
 - 4.1.2 In consideration for the payment of \$3.0 million: (i) discharge a mortgage in favour of the Company (the "**Mortgage**") over five parcels of land in Powell River (collectively, the "**PRSC Properties**") in which the Company has a one-third ownership interest through a joint venture investee, PRSC Limited Partnership ("**PRSC**"); and (ii) transfer the Company's ownership interest in PRSC to the City; and
 - 4.1.3 Allow for the transfer of, or granting of access to, certain properties owned by the Company to the City for nominal consideration, as well as permitting the City to explore certain economic development opportunities near the Powell River Mill.
- 4.2 The 8th Baarda Affidavit sets out the full background to the Powell River Property Tax Agreement and the transactions contemplated thereby. Certain key points are repeated below for ease of reference.
- 4.3 Catalyst currently operates the Powell River Mill and has certain other interests in Powell River. The Company, through its subsidiary 0606890 B.C. Ltd. ("**0606**"), also owns a one-third interest in PRSC. The two other partners in PRSC are the City (through the Powell River Waterfront Development Corporation) and the Sliammon First Nation (through Tees'Kwat Land Holdings Ltd.) ("**Sliammon**").
- 4.4 PRSC was set up in 2006 for the purpose of selling surplus Catalyst properties. In 2006, Catalyst transferred the PRSC Properties to PRSC, and PRSC executed the

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Mortgage over the PRSC Properties in the amount of \$4.5 million in favour of 0606. The repayment terms of the Mortgage were set out in a commitment letter from 0606 to PRSC dated June 30, 2006 (the "**Commitment Letter**"). The Mortgage matured in December 2011, but was subject to renewal under the terms of the AIP. The outstanding amount on the Mortgage is currently \$4.4 million.

- 4.5 Catalyst owns certain other properties at or near the Powell River Mill site that it has not used for several years. These include an office building and associated lands in Powell River (the "**Office Building**"), which was once used by Catalyst in the administration of the Powell River Mill, as well as a selection of waterfront lands in Powell River (collectively, the "**Waterfront Lands**"), some of which it currently leases to the City.
- 4.6 The City and Catalyst concluded the AIP in 2010 following extensive negotiations around reducing the Company's property taxes. The AIP addresses several matters, including setting a limit on property taxes for the Powell River Mill and resolving litigation related to that issue, agreements on the transfer of the Office Building to the City, and providing access to the Waterfront Lands. Both the City and Catalyst have acted in accordance with the terms of the AIP to the extent possible, but completion of certain actions contemplated by the AIP has been delayed.
- 4.7 The details and results of the marketing process in respect of the PRSC Properties, the Office Building and the Waterfront Lands are set out in the 8th Baarda Affidavit. In summary, for a number of years, PRSC and the Company, with the assistance of a real estate listing agent (the "**Agent**"), have attempted to sell the PRSC Properties without success. The Agent has provided his views to the Company and PRSC on the current market value of these properties, but has noted that they could take two or more years to sell.
- 4.8 After the Company initiated the CCAA proceedings, the City and Sliammon made an offer to pay \$3 million to CPC in exchange for: (i) the discharge of the Mortgage; and (ii) the transfer by 0606 to the City of all of 0606's interests in PRSC.
- 4.9 On April 27, 2012, following extensive negotiations, the Company and the City entered into the Powell River Property Tax Agreement. This agreement contains many of the provisions previously included in the AIP and, as noted above, provides for what is effectively the sale of the PRSC Properties.

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- 4.10 The key terms of the Powell River Property Tax Agreement include the following:
- 4.10.1 The City shall administer a tax exemption program so that the property taxes payable by the Company to the City will not exceed a total of \$2,250,000 for calendar years 2012 through 2014;
 - 4.10.2 Catalyst shall grant rights of way, leases and rights of occupation over, or transfer to the City, the Office Building, the Waterfront Lands, and an access way between the Office Building and the Waterfront Lands. The Office Building is among the properties that will be transferred to the City, subject to the completion of a subdivision of the Office Building lands;
 - 4.10.3 Catalyst shall discharge the Mortgage and cause 0606 to transfer its interest in PRSC to the City, subject to the City or the City and Sliammon paying Catalyst \$3 million;
 - 4.10.4 Catalyst shall permit the City to explore the possibility of certain economic development opportunities in the vicinity of the Powell River Mill; and
 - 4.10.5 After Catalyst emerges from the CCAA proceedings, Catalyst shall pay to the City up to \$500,000 per year if the return on capital employed at the Powell River Mill exceeds 10% based on an agreed upon calculation.
- 4.11 The Powell River Property Tax Agreement itself is not subject to any conditions precedent. However, the City's obligation to complete the "sale" of the PRSC Properties is subject to a number of conditions precedent, including approval by the City Council and the City electing to proceed after the City enters into an agreement with Sliammon to contribute \$1.5 million of First Nation funding. The City may elect to waive the conditions if it chooses to do so. The Monitor is not aware of any such agreement or waiver in place as of the date of this report.
- 4.12 Catalyst's negotiations with the City and execution of the Powell River Property Tax Agreement were based on the following key considerations:
- 4.12.1 The Powell River Property Tax Agreement will divest the Company of unused properties that have provided little value to the Company in recent years;
 - 4.12.2 The Company considers it unlikely that it will be able to realize the full amount of the Mortgage given the nature of the PRSC Properties and the state of the real estate market in Powell River. This is consistent with the conclusions reached by the Monitor in its Ninth Report;

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- 4.12.3 The sale of the PRSC Properties, should it complete, provides the Company with \$3 million in proceeds to be released subject to Court approval;
 - 4.12.4 The Company will receive property tax certainty from the City until the end of 2014, a benefit of approximately \$2 million per year;
 - 4.12.5 The Company will divest itself of the Office Building and some of the Waterfront Lands, and the Company will avoid the payment of ongoing upkeep and maintenance costs and property taxes on those properties;
 - 4.12.6 Both the Office Building and the PRSC Properties have proved difficult to sell. The Company received only two offers on one of the PRSC Properties and no offers on the other PRSC Properties in the two to four year period that the PRSC Properties were listed for sale. Both of the offers received failed to close at the due diligence stage of the negotiations.
- 4.13 In addition to the above considerations, the Monitor notes the following:
- 4.13.1 The assets being sold as part of the Powell River Property Tax Agreement are non-core assets and are surplus to the Company's needs;
 - 4.13.2 The \$3 million to be received in respect of the PRSC Properties is within the range of values for these properties as set forth in the Monitor's Ninth Report; and
 - 4.13.3 The property tax considerations granted by the City as part of the Powell River Property Tax Agreement total approximately \$6 million in the aggregate. This consideration exceeds the potential market value of the Office Building and the Waterfront Lands, which together have an estimated current market value of approximately \$0.9 million to \$1.1 million.
- 4.14 The Monitor agrees with the Company's rationale for entering into the Powell River Property Tax Agreement. The Monitor recognizes that the disposition of the Company's interest in the PRSC Properties is, at this time, subject to a number of conditions precedent in favour of the City. However, given the overall benefits of the Powell River Property Tax Agreement, and considering that if the disposition of the PRSC Properties does not complete, the Company is free to again market those lands for sale, the Monitor does not see any reason to deny approval of the agreement on that basis and recommends that the Court approve the Powell River Property Tax Agreement.

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- 4.15 The proceeds from the transactions shall stand in the place and stead of the PRSC Properties, the Waterfront Lands and the Office Building, and any claims shall attach to the proceeds with the same priority as they had immediately prior to the sale.
- 4.16 The proceeds from the sales are to be held by the Monitor pending further Order of the Court.

5. CONCLUSIONS

- 5.1 The Monitor confirms its recommendations to the Court that it grant Orders approving:
 - 5.1.1 The postponement of the Shareholders Meeting; and
 - 5.1.2 The Powell River Property Tax Agreement and the transactions contemplated thereby.

This report is respectfully submitted this 9th day of May, 2012.

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



Michael J. Vermette, CA, CIRP
Senior Vice President



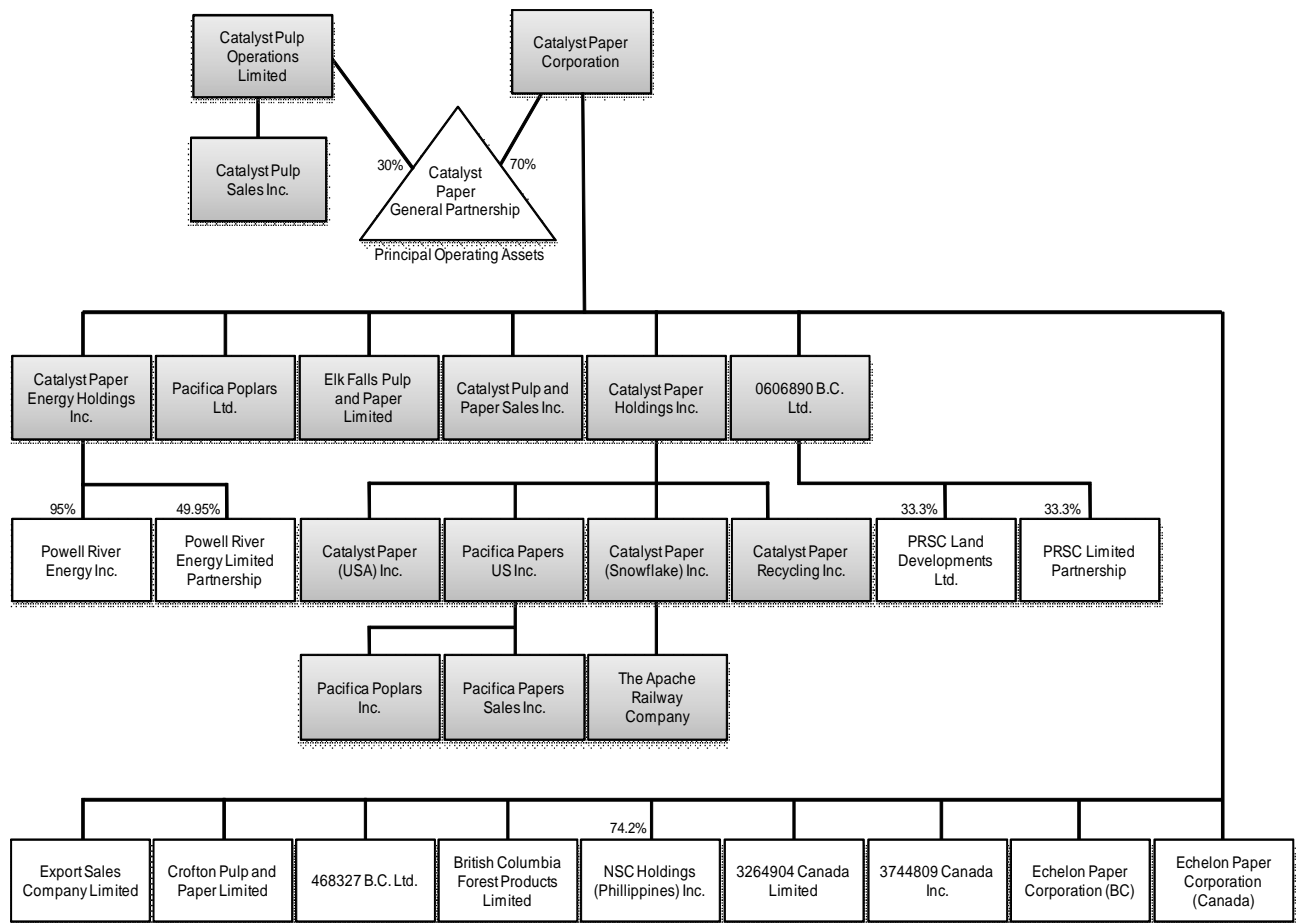
Mica Arlette, CA, CIRP
Senior Vice President

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.