

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 TWENTY-SECOND REPORT TO COURT**

**February 20, 2013**



**CATALYST PAPER CORPORATION, ET AL  
MONITOR’S TWENTY-SECOND REPORT TO COURT**

**February 20, 2013**

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# CATALYST PAPER CORPORATION, ET AL MONITOR'S TWENTY-SECOND REPORT TO COURT

February 20, 2013

## 1. INTRODUCTION

- 1.1 On January 31, 2012, on the application of Catalyst Paper Corporation ("**CPC**") 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 On June 25, 2012, the Company's second amended plan of compromise and arrangement (the "**Second Amended Plan**") was approved by the Affected Creditors (as defined in the Second Amended Plan). On June 28, 2012, the Court made an order (the "**Sanction Order**") sanctioning and directing the Company to implement the Second Amended Plan.
- 1.3 The Second Amended Plan has now been implemented with an Effective Date (as defined therein) of September 12, 2012.
- 1.4 This is the Monitor's 22<sup>nd</sup> Report to Court. The purpose of this report is to advise the Court of, and, as applicable, provide the Monitor's comments on, the following matters:
  - 1.4.1 The Company's application for an order approving the sale of its interests in Powell River Energy Inc. ("**PREI**") and Powell River Energy Limited Partnership (the "**Partnership**") pursuant to a purchase agreement dated February 13, 2013 (the "**Purchase Agreement**") among Catalyst Paper Energy Holdings Inc. ("**CPEH**"), CPC and Powell River Energy Trust (the "**Purchaser**"); and
  - 1.4.2 The status of the claims process and distributions pursuant to the Second Amended Plan.
- 1.5 Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars. All capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Second Amended Plan or the Company's application materials in the CCAA proceedings.

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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 in the CCAA proceedings on January 31, 2012, a copy of which can be found on the Monitor's website at:

[www.pwc.com/car-catalystpaper](http://www.pwc.com/car-catalystpaper)

- 2.2 All prescribed materials filed by Catalyst and the Monitor relating to this CCAA proceeding are available to creditors and other interested parties in electronic format on the Monitor's website. The Monitor will continue to post regular updates to the website and will add prescribed and other materials as required.
- 2.3 The United States Bankruptcy Court for the District of Delaware (the "US Court") has recognized these proceedings as a foreign main proceeding pursuant to Chapter 15 of the US Bankruptcy Code. The Monitor's website also contains materials relating to the Chapter 15 proceedings in the US Court.

## 3. SALE OF PREI

### *Overview*

- 3.1 PREI owns the Powell River and Lois Lake hydro dams located near Catalyst's Powell River mill. Catalyst buys the power produced by those dams for the mill's operations pursuant to a power purchase agreement.
- 3.2 CPEH owns a 50.001% equity interest in PREI, a 49.95% interest in the Partnership and approximately \$20.8 million of debt owing from PREI pursuant to promissory notes issued by PREI (the foregoing are hereafter referred to as the "**PREI Assets**"). The remaining interests in PREI and the Partnership are owned by the Purchaser, which in turn is owned directly or indirectly by Brookfield Renewable Energy Partners L.P.
- 3.3 Pursuant to the Second Amended Plan, Catalyst is to sell the PREI Assets and 50% of the net proceeds from this sale (the "**PREI Proceeds Pool**") is to be distributed to the Unsecured Creditors, excluding Convenience Creditors, Cash Election Creditors and those creditors making an Equity Election.

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- 3.4 On or around February 13, 2013, CPC, CPEH and the Purchaser entered into the Purchase Agreement pursuant to which CPEH agreed to sell the PREI Assets and certain related assets to the Purchaser for \$33 million. A copy of the Purchase Agreement is attached to the 9<sup>th</sup> affidavit of Robert Lindstrom made on February 18, 2013. The Company now seeks the approval of the Purchase Agreement.

## *Sales Process*

- 3.5 The PREI Assets were included in the Company's assets to be marketed and sold pursuant to the Sales and Investor Solicitation Process ("**SISP**") approved by the March 22, 2012 order of this Court, as amended by a further order made April 4, 2012. The SISP was initiated in or around May 24, 2012, prior to the sanctioning of the Second Amended Plan.
- 3.6 The Company's financial advisor, Perella Weinberg Partners LLP ("**Perella**") contacted more than 75 parties to solicit expressions of interest in Catalyst's assets, including approximately 13 parties specifically targeted as potentially having an interest in the PREI Assets. Many of these parties executed non-disclosure agreements to obtain detailed information to evaluate the opportunity.
- 3.7 Pursuant to a Unanimous Shareholders Agreement and a Limited Partnership Agreement, both dated January 31, 2001 (the "**Shareholders Agreement**" and the "**Partnership Agreement**", respectively), among PREI, a predecessor to CPEH and the Purchaser:
- 3.7.1 CPEH was required to notify the Purchaser of its intention to sell the PREI Assets; and
- 3.7.2 The Purchaser was entitled to a right of first refusal to purchase the interests and to certain "piggy back" rights whereby, at the Purchaser's election, a purchaser of the PREI Assets would have to acquire the Purchaser's interests in PREI and the Partnership.
- 3.8 In light of the foregoing, the Company engaged in negotiations with the Purchaser for the sale of the PREI Assets while continuing discussions with parties identified as part of the SISP.

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- 3.9 Although the SISP was suspended upon pronouncement of the Sanction Order, the Company and Perella continued to generally follow the provisions of the SISP in order to solicit offers to acquire the PREI Assets. The primary point of departure from the terms of the SISP was the decision not to hold an auction for the PREI Assets, but rather to negotiate the Purchase Agreement with the Purchaser, which emerged as the preferred bidder. Given the existence of the Shareholder and Partnership Agreements, the Monitor has no concerns with that decision.
- 3.10 The Monitor considers the sales process undertaken by the Company to have been reasonable and appropriate in the circumstances. It was initiated in accordance with the Court-approved SISP and continued on a modified basis following the sanctioning of the Second Amended Plan so as to focus on the PREI Assets. The Monitor was updated regularly on the progress of the marketing and sale process.
- 3.11 In its 9<sup>th</sup> report to the Court dated April 10, 2012, the Monitor estimated the fair market value of the PREI Assets to be in the range of \$26.0 million to \$37.2 million. The purchase price of \$33 million under the Purchase Agreement exceeds the mid-point of that range. Based on the sale process undertaken and the Monitor's previous estimates of value, the Monitor is satisfied that the value being received by the Company pursuant to the Purchase Agreement is reasonable and fair.
- 3.12 The Purchase Agreement contemplates the execution of a number of other agreements in order to effect the transfer of the PREI Assets and facilitate the operation of the Powell River and Lois Lake hydro dams by the Purchaser. Further, minor amendments are being made to the existing power purchase agreement and the Powell River Mill will continue to purchase power from PREI.
- 3.13 Closing of the Purchase Agreement is subject to a number of conditions, including Court approval and regulatory approvals. Catalyst expects that the sale can be completed by March 31, 2013.
- 3.14 The Monitor recommends that the Purchase Agreement be approved on the basis that the sales process undertaken by the Company was reasonable in the circumstances, and the value being received by Catalyst is sufficient. The approval and completion of the Purchase Agreement will permit the Company to make a distribution to certain Unsecured Creditors from the PREI Proceeds Pool in the near future.

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## 4. CLAIMS PROCESS & PLAN DISTRIBUTIONS

- 4.1 The Monitor and the Company have now completed the claims process, including resolving the disputed claims and the Snowflake Claims identified and discussed in the Monitor's 21<sup>st</sup> report. A summary of the claims admitted is presented in the table below:

Unsecured Creditor Type	(\$US)
Convenience Creditors	4,546,591
Equity Election Creditors	93,613,142
Unsecured Creditors	341,580,148
<b>Total Unsecured Claims</b>	<b>439,739,881</b>

- 4.2 On November 22, 2012 the Company provided the Monitor with CAD\$719,651.64 and USD\$239,762.14, which was used to fund a distribution to the Convenience Creditors.
- 4.3 On December 19, 2012, the Company distributed 127,571 new common shares to the creditors who made Equity Elections in accordance with the Second Amended Plan. The new common shares commenced trading on the Toronto Stock Exchange on January 7, 2013.
- 4.4 The final distribution to Unsecured Creditors will be made from the PREI Proceeds Pool once the sale of the PREI Assets is completed. As noted earlier, the PREI Proceeds Pool is to be reduced to account for the distributions already made to the Convenience Creditors and the Equity Election Creditors. From its calculations, the Monitor has determined that \$12,816,833 of the net proceeds from the sale of the PREI Assets will be distributed to Unsecured Creditors, with the remainder to be retained by Catalyst.
- 4.5 The distribution of the PREI Proceeds Pool to eligible Unsecured Creditors pursuant the Second Amended Plan will result in a recovery by those creditors of approximately 3.8 cents per dollar of claim. This recovery is slightly higher than the 3.6 cents on the dollar estimate that the Monitor provided in its June 17, 2012 report issued prior to the vote on the Second Amended Plan.

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**5. CONCLUSION**

- 5.1 The Monitor confirms its recommendation that the Court approve the Purchase Agreement.

This report is respectfully submitted this 20<sup>th</sup> day of February, 2013.

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



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



**Neil Bunker, CA, CIRP  
Vice President**

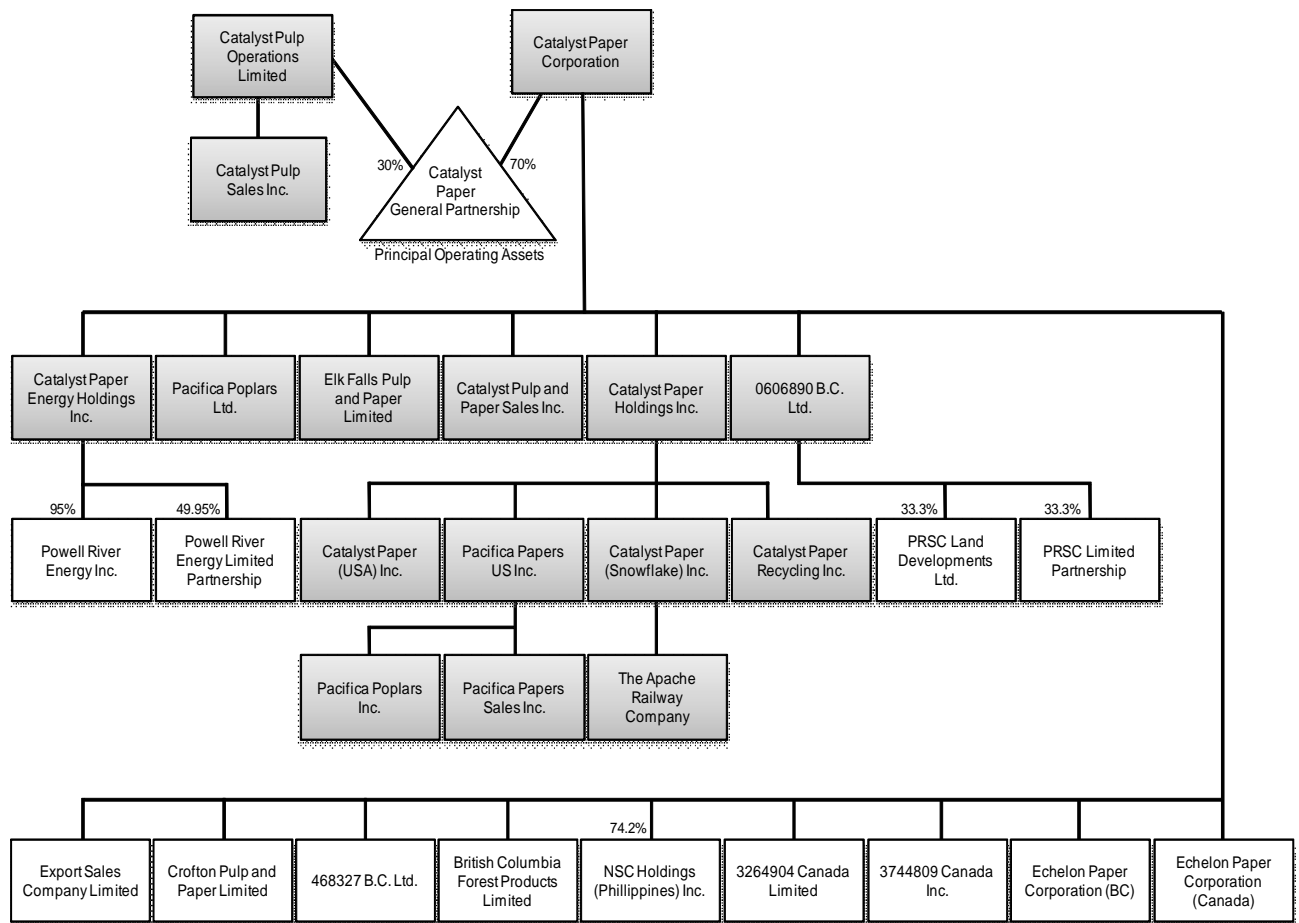


## **APPENDIX A**

### **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.