

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 SIXTH REPORT TO COURT
[Prepared for the March 21, 2012 Court Hearing]**

March 20, 2012



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

March 20, 2012

TABLE OF CONTENTS

1.	INTRODUCTION	1
2.	BACKGROUND.....	2
3.	DISPOSITION OF ELK FALLS ASSETS.....	2
4.	PST APPEALS.....	6
5.	RECOMMENDATIONS	7

APPENDIX

- A. Petitioning Parties Organization Chart**

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

March 20, 2012

1. INTRODUCTION

- 1.1 On January 31, 2012 (the "**Order Date**"), on the application of Catalyst Paper Corporation, Catalyst Pulp Operations Limited, Catalyst Pulp Sales Inc., Pacifica Poplars Ltd., Catalyst Pulp and Paper Sales Inc., Elk Falls Pulp and Paper Limited, Catalyst Paper Energy Holdings Inc., 0606890 B.C. Ltd., Catalyst Paper Recycling Inc., Catalyst Paper (Snowflake) Inc., Catalyst Paper Holdings Inc., Pacifica Papers U.S. Inc., Pacifica Poplars Inc., Pacifica Papers Sales Inc., Catalyst Paper (USA) Inc. and The Apache Railway Company (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. ("**PwC**") was appointed Monitor of the Companies (the "**Monitor**").
- 1.2 Pursuant to the Initial Order, among other things, all creditors were stayed from commencing or continuing any proceedings against Catalyst until February 14, 2012, the date set for a hearing to consider an extension of the proceedings pursuant to the CCAA (the "**Comeback Hearing**"). At the Comeback Hearing, the stay of proceedings was extended to April 30, 2012.
- 1.3 The Monitor has produced five reports to date, as well as a pre-filing report. The purpose of this, the Monitor's Sixth Report to Court, is to advise the Court with respect to the following matters to be addressed at the hearing scheduled for March 21, 2012:
 - 1.3.1 The Company's application for authorization and approval to enter into a contract for the demolition and sale of certain assets located at the Elk Falls mill site in Campbell River, B.C. ; and,
 - 1.3.2 The Company's application to have the stay of proceedings lifted for the sole and limited purpose of advancing the PST Appeals filed by the Company.
- 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.

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

March 20, 2012

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

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.

- 2.2 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. DISPOSITION OF ELK FALLS ASSETS

Background

- 3.1 As described in Affidavit #2 of Robert Lindstrom dated March 16, 2012 (the "**Lindstrom Affidavit**"), the Company's manufacturing plant near Campbell River, B.C. (the "**Elk Falls Mill**") was a large integrated pulp and paper mill. In September 2010, the Elk Falls Mill was permanently closed in light of persistent weak markets and uncompetitive manufacturing costs.
- 3.2 In September 2010, the equipment at the Elk Falls Mill was made available for sale through Maynards Industries Ltd ("**Maynards**"). Full colour marketing brochures were prepared as part of the marketing process and over 5000 brochures were mailed during the third quarter of 2010 and the first quarter of 2011. The equipment was marketed globally to attract potential buyers and certain brochures were translated into Mandarin Chinese to encourage equipment sales to China.

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

March 20, 2012

- 3.3 Maynards marketed the major equipment for over one year without significant success and less than \$2 million of equipment sales occurred primarily due to weak market demand and excess supply of used pulp and paper machinery.

Description of Sales Process

- 3.4 After the unsuccessful efforts to sell the equipment at the Elk Falls Mill, the Company developed a plan (the "Sales Process") to sell the equipment for scrap value and use the proceeds to fund the demolition of the non-useable buildings and infrastructure at the Elk Falls Mill.
- 3.5 The details and results of the Sales Process are set out in the Lindstrom Affidavit. The Monitor has had an opportunity to review the Sales Process materials, and has had discussions with the individuals at Catalyst who were involved in the Sales Process in order to gain an understanding of the actions taken and results of the Sales Process.
- 3.6 The Monitor notes the following key activities and results of the Sales Process set out in the Lindstrom Affidavit:
- 3.6.1 A total of 40 scrap and demolition companies were contacted and provided with bid packages outlining Catalyst's requirements for the Sales Process. The bid package identified major pieces of equipment, potential hazardous materials and other relevant information and provided a process whereby all bidders had access to the Elk Falls Mill site to develop their bids. Bidders were asked to provide estimates of the recovery value from the scrap assets and estimates of the costs to demolish the Elk Falls Mill site as per Catalyst's specifications;
 - 3.6.2 Approximately 19 of the 40 companies contacted participated in an information meeting at the site in November, 2011 and these bidders received additional information at that time. Bidders were provided with access to the Elk Falls Mill site and provided time with Catalyst personnel to address questions; and
 - 3.6.3 In January 2012, nine companies provided comprehensive bids for the scrap recovery and demolition of the site. The bids contained a considerable range

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

March 20, 2012

of values ranging between a net recovery of \$5.5 million to a net cost of \$13.5 million.

- 3.7 In February 2012, after Catalyst entered the CCAA process, the Company adjusted the Sales Process for the Elk Falls Mill. The Company narrowed the scope of work and limited it to the sale and removal of scrap assets and excluded the demolition work included in the previous bids.
- 3.8 The Company identified two bidders that they considered to be the leading bidders in the Sales Process (the "**Final Bidders**") and requested them to resubmit bids for the narrower scope of work. The Company specifically requested bids that would maximize the recovery value that could be realized from the scrap assets in a three-month period.
- 3.9 The Company concluded that Schnitzer Steel BC, Inc. ("**Schnitzer**") should be the successful bidder. The Company concluded this on the basis of the following key considerations:
 - 3.9.1 Both bidders provided an estimated net recovery based on similar estimated tonnage of scrap, but Schnitzer's bid provided a higher estimated recovery than the other bidder;
 - 3.9.2 Schnitzer is part of a global scrap metal dealer/contractor with significant financial capacity. The size and reach of Schnitzer was seen to be advantageous compared to the other Final Bidder for a demolition process that has a relatively condensed timeframe; and,
 - 3.9.3 The Company's previous experience with each of the two Final Bidders.

Construction Agreement

- 3.10 An agreement between Catalyst Paper General Partnership (the "**Partnership**") and Schnitzer (the "**Construction Agreement**") has been drafted but not executed as the Partnership is waiting for the Court's authorization. The Monitor has had an opportunity to review the Construction Agreement.
- 3.11 The Partnership's recovery from the Construction Agreement is based the sale of assets at the Elk Falls Mill described in the Construction Agreement (the "**Purchased**

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

March 20, 2012

Assets”) either as equipment or as scrap metal over a 90 day period with an option for the Company to extend that period if desired. Key terms of the Construction Agreement include the following:

- 3.11.1 The Partnership receives the gross sales price for equipment less a commission paid to Schnitzer, and the net proceeds are received within 5 days of the sale.
 - 3.11.2 The Partnership receives a fixed price per unit for various grades of scrap metal which is sorted and ready for shipment. Payments for metal produced in the prior week are received within 5 days after the end of the preceding week.
 - 3.11.3 Schnitzer shall cover all of the costs of removal, sorting, shipping, etc., as outlined in the Construction Agreement.
- 3.12 The Company anticipates that its net recovery will exceed \$10 million.

Conclusions

- 3.13 In the Monitor's view, the Sales Process undertaken by the Company was structured and carried out in a manner that provides reasonable assurance that the overall recovery from the assets currently on hand will be maximized. Therefore, the Monitor supports the Partnership's plans to enter into the Construction Agreement.
- 3.14 The Monitor understands that it is the Company's position that the assets to be realized pursuant to the Construction Agreement are subject to the First Lien Note Security. That appears to the Monitor to be consistent with the description of the collateral subject to the First Lien Noteholders' security agreements. In the event that any party wishes to challenge that characterization of the assets to be realized, they should be afforded the opportunity to do so upon further application, and any order made should be subject to such party's rights.

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

March 20, 2012

4. PST APPEALS

- 4.1 The Company owns a 50.01% interest in Powell River Energy Inc. (“PREI”) which operates a hydro electric power generating plant in Powell River, B.C. PREI sells its power firstly to the Company, with any excess sold into the BC Hydro grid.
- 4.2 The Company makes payments to PREI for the cost of power supplied, and also makes lease payments pursuant to six Possessory Interest Agreements (“PIAs”) which granted the Company certain interests and rights of joint possession and use respecting the PREI lands and facilities, arising under certain statutory rights of way in favour of PREI.
- 4.3 The PST Appeals, as described and defined in P. Sakai’s affidavit #1 sworn March 16, 2012, relate to whether social services tax (“PST”) is exigible on the lease payments made by the Company pursuant to the PIAs. The Company has remitted tax and interest in excess of \$6 million and has filed appeals in respect of the related assessments. Based on the advice of its legal counsel, the Company believes that there is a positive prospect that the PST Appeals will be successful and has concluded that the additional costs required to complete the appeal are justified in relation to the potential future benefit if they are successful.
- 4.4 Although the PST Appeals are being advanced by the Company, a limited lifting of the stay is required to permit Her Majesty the Queen in the Right of British Columbia (the “Province”) to advance an application in the PST Appeals for further production and discovery of evidence. This procedural step is necessary before the PST Appeals can be heard.
- 4.5 In light of the potential future benefit to the Company, the Monitor supports the Company’s application for a limited lifting of the stay of proceedings for the purpose of advancing the PST Appeals.

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

March 20, 2012

5. RECOMMENDATIONS

- 5.1 The Monitor confirms its recommendations to the Court that:
- 5.1.1 The Partnership be authorized to execute the Construction Agreement and that the sale of the Purchased Assets in accordance therewith be approved;
 - 5.1.2 The Monitor recommends that the sale of the Purchased Assets be without prejudice to the right of any party to contest that the Proceeds constitute First Lien Notes Collateral and/or are subject to the First Lien Noteholders Security; and,
 - 5.1.3 That the stay in the CCAA proceedings be lifted for the limited purpose of facilitating the continuation of the PST Appeals.

This report is respectfully submitted this 20th day of March, 2012.

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



Mica Arlette, CA, CIRP
Senior Vice President

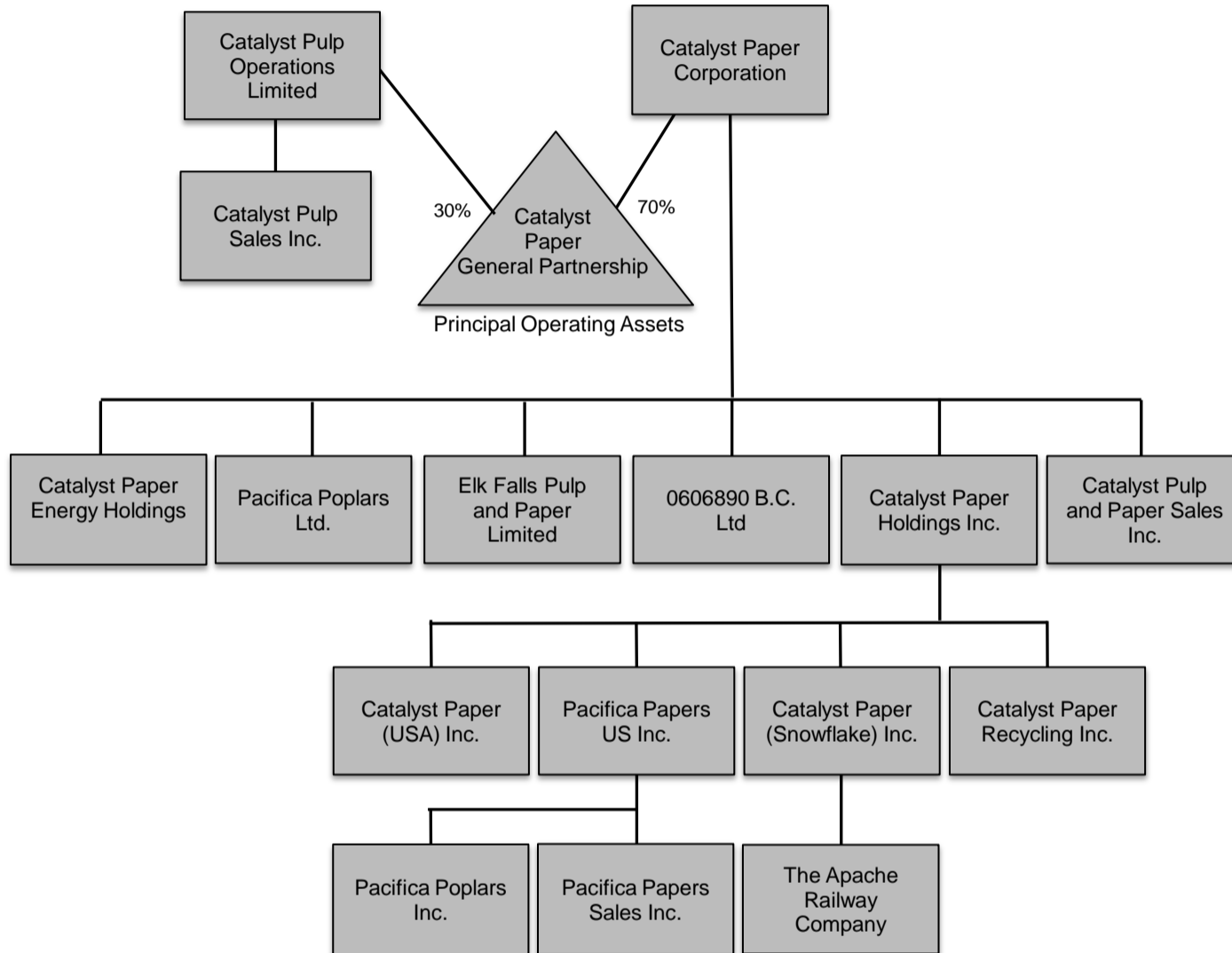


Neil Bunker, CA, CIRP
Vice President

APPENDIX A

Petitioner Parties Organization Chart

**Catalyst Paper Corporation
Petitioner Parties Organization Chart**



Notes:

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