



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

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, S.B.C. 2002, c. 57

AND

IN THE MATTER OF CATALYST PAPER CORPORATION  
AND THE PETITIONERS LISTED IN SCHEDULE "A"

**PETITIONERS**

**NOTICE OF APPLICATION**

**Names of applicants: Catalyst Paper Corporation and the other Petitioners listed in Schedule "A" ("Catalyst")**

To: Catalyst Paper Corporation Pension Administrative Committee, Catalyst TimberWest Retired Salaried Employees Association, Financial Institutions Commission of B.C., CIBC Mellon Trust in its capacity as the trustee for beneficiaries under Plan A who reside outside of British Columbia, those suppliers listed in Exhibit "A" to Affidavit #1 of R. Lindstrom, affirmed February 1, 2012 (the "Critical Suppliers"), the Attorney General of British Columbia, the Attorney General of Canada, and the Canada Revenue Agency.

TAKE NOTICE that an application will be made by the applicants to the presiding judge at the courthouse at 800 Smithe Street, Vancouver, British Columbia on February 3, 2012 at 9:30 a.m. for the orders set out in Part 1 below.

### **Part 1: ORDERS SOUGHT**

1. An Order amending the Initial Order dated January 31, 2012 to permit advances to be made pursuant to the DIP Facility, to effectuate the DIP Lenders' Charge, and to make such consequential amendments to the Initial Order as necessary.
2. An Order designating critical suppliers and creating a critical supplier charge that, among other things:
  - (a) deems the Critical Suppliers as critical suppliers in accordance with s. 11.4 of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended;
  - (b) requires those suppliers to supply goods and services to Catalyst on such terms and conditions as are consistent with the supply relationship between the Critical Suppliers and Catalyst;
  - (c) grants the Critical Suppliers a charge (the "Critical Suppliers Charge");
  - (d) grants the Critical Suppliers Charge a priority over the DIP Lenders' First Lien Collateral that ranks in priority to the D&O Charge but subordinate to the ABL Facility Security;
  - (e) grants the Critical Suppliers Charge a priority over the Notes First Lien Collateral that ranks in priority to the D&O Charge but subordinate to the Administrative Charge; and
  - (f) makes such consequential amendments to the Initial Order as necessary.
3. An Order entitling Catalyst to pay all payments due and owing, or which may become due and owing, pursuant to Catalyst Paper Corporation's ("CPC") retention program for senior executives as provided for in the Affidavit #1 of B. Baarda, affirmed January 31, 2012 (the "Retention Program") and authorizing CPC (and any other person that may be appointed to act on behalf of CPC, including without limitation, any trustee, liquidator, receiver, interim receiver, receiver and manager or other person acting on behalf of any such person) to perform CPC's obligations under the Retention Program.

### **Part 2: FACTUAL BASIS**

4. On January 31, 2012, the Supreme Court of British Columbia granted the Initial Order.
5. Because of current liquidity challenges, Catalyst requires advances under the DIP Facility.
6. Catalyst considers that it is appropriate to have the same level of financing available to it while under the CCAA process.

7. The DIP Lenders are not willing to advance the DIP Facility without a charge securing their financing with the priorities set out in the Initial Order.
8. Due to its circumstances, Catalyst has not, for some time now, kept significant inventory on hand. Catalyst relies on efficient and expedited supply from its suppliers to ensure that its operations continue, particularly in the current situation of lower inventory levels.
9. In order to ensure adequate and timely supply of required products and services, Catalyst requires flexibility to both compel supply and access credit terms on the basis of a critical supplier charge. Catalyst must ensure continued good relations with suppliers and be able to offer them a variety of options related to the terms upon which they will continue to supply to Catalyst during these proceedings.
10. Catalyst relies on an extensive and interwoven network of suppliers and service providers to ensure the continuance of its business. These suppliers are necessary to the production of Catalyst's product as well as the delivery of Catalyst's product to its customers in a highly competitive industry.
11. Catalyst requires the ability to provide a critical supplier charge to the Critical Suppliers.
12. With the assistance of the Proposed Monitor, a calculation has been performed to estimate the quantum of a critical suppliers charge based on an estimate of the amounts that would be owing to the critical suppliers during a usual pay cycle for those critical suppliers based on current credit and payment terms. Based on that analysis, this amount could be in the range of approximately \$11.8 million depending on certain assumptions.
13. The Key Employee Retention Program provides incentives for senior management personnel to continue to remain employed by Catalyst in the turbulent circumstances of the CCAA process. The likely restructuring plan for Catalyst will involve an exchange of debt for equity such that new entities will own and control Catalyst in the foreseeable future. The senior management team then has been working to restructure Catalyst to ensure its continued viability in circumstances where their own continued employment is in jeopardy.
14. To ensure these key individuals remained to complete the restructuring, the KERP has been put in place. It provides for incentive payments to the covered employees who remain employed with Catalyst at the end of 2012 and further incentives for those who remain employed by Catalyst at the end of 2013. There are further provisions which entitle the covered employees to termination pay consistent with their existing contractual or common law entitlement if their employment is terminated after a change of control of Catalyst. These obligations are presently secured by letters of credit issued under the ABL Facility.

### **Part 3: LEGAL BASIS**

1. *Supreme Court Civil Rules*, Rule 8-1, 13-1; and
2. *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended; and

3. The inherent and equitable jurisdiction of the Court.

**Part 4: MATERIAL TO BE RELIED ON**

1. Affidavit #1 of B. Baarda, made 31/Jan/2012;
2. Affidavit #3 of B. Baarda, made 31/Jan/2012;
3. Affidavit #1 of R. Lindstrom, made 1/Feb/12;
4. Affidavit #1 of J. Reddy, made 31/Jan/2012; and
5. Such further and other materials as counsel may advise and the Court may permit.

The applicants estimate that the application will take 2 hours.

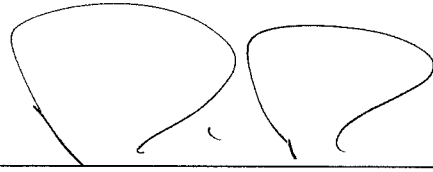
This matter is within the jurisdiction of a master.

This matter is not within the jurisdiction of a master.

TO THE PERSONS RECEIVING THIS NOTICE OF APPLICATION: If you wish to respond to this notice of application, you must, within 5 business days after service of this notice of application or, if this application is brought under Rule 9-7, within 8 business days after service of this notice of application,

- (a) file an application response in Form 33,
- (b) file the original of every affidavit, and of every other document, that
  - (i) you intend to refer to at the hearing of this application, and
  - (ii) has not already been filed in the proceeding, and
- (c) serve on the applicant 2 copies of the following, and on every other party of record one copy of the following:
  - (i) a copy of the filed application response;
  - (ii) a copy of each of the filed affidavits and other documents that you intend to refer to at the hearing of this application and that has not already been served on that person;
  - (iii) if this application is brought under Rule 9-7, any notice that you are required to give under Rule 9-7(9).

Date: 1/Feb/2012

A handwritten signature in black ink, consisting of two large, rounded, looped shapes that resemble the letters 'R' and 'R' joined together. The signature is positioned above a horizontal line.

---

Signature of  
 applicant  lawyer for applicants  
Bill Kaplan, Q.C. / Peter Rubin

**SCHEDULE "A"**

**LIST OF ADDITIONAL PETITIONERS**

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.  
The Apache Railway Company

To be completed by the court only:

Order made

in the terms requested in paragraphs ..... of Part 1 of this notice of application

with the following variations and additional terms:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature of  Judge  Master

## APPENDIX

*[The following information is provided for data collection purposes only and is of no legal effect.]*

### **THIS APPLICATION INVOLVES THE FOLLOWING:**

*[Check the box(es) below for the application type(s) included in this application.]*

- discovery: comply with demand for documents
- discovery: production of additional documents
- extend oral discovery
- other matter concerning oral discovery
- amend pleadings
- add/change parties
- summary judgment
- summary trial
- service
- mediation
- adjournments
- proceedings at trial
- case plan orders: amend
- case plan orders: other
- experts