



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" or the "Company")**

To: The Service List

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 March 8, 2012 at 9:45 a.m. for the orders set out in Part 1 below.

Part 1: ORDERS AND DECLARATIONS SOUGHT

1. An Order substantially in the draft form attached as **Schedule "B"** hereto.

Part 2: FACTUAL BASIS

2. On January 31, 2012, the Court granted an Initial Order (the “**Initial Order**”) providing for a comeback hearing on February 14, 2012 and a stay of proceedings until that same date.
3. On February 3, 2012, the Court granted an Order amending and restating the Initial Order (the “**Amended and Restated Order**”).
4. On February 14, 2012, the Court extended the charge in favour of the Directors and Officers to February 23, 2012. On February 23, 2012, the Court extended the charge in favour of the Directors and Officers to March 8, 2012.
5. The Directors and Officers require protection by way of a directors and officers charge to indemnify them against obligations and liabilities that they may incur as a directors or officers. The Directors and Officers require and are entitled to a degree of protection and certainty. The amount of the charge has been calculated with assistance of the Monitor and is appropriate in the circumstances.
6. The Amended and Restated Initial Order provides that the Company shall be entitled to pay fees of the counsel for Wilmington Trust FSB; however, it does not provide that the Company shall be entitled to pay the fees of Wilmington Trust FSB in its capacity as Trustee for the Indentures of the 2016 Noteholders. The Company seeks an order entitling it to pay these fees.
7. 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. One 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.
8. To incentivize these key individuals to remain with the Company and to complete the restructuring, the KERP was implemented. 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 currently secured by letters of credit. The Company seeks a Court-Ordered charge securing the KERP amounts.
9. On October 23, 2011, the Company retained Perella Weinberg Partners LP (the “**Financial Advisor**”) to provide financial advisory, restructuring, financing, and sale services to assist with the Company’s projected restructuring. For many months, the Financial Advisor has assisted the Company in efforts towards a restructuring for the benefit of the Company and all its stakeholders.

10. The Engagement Letter requires the Company to pay the Financial Advisor a monthly fee, as well as expenses incurred by the Financial Advisor. The Company is also required, pursuant to the Engagement Letter, to pay the Financial Advisor a Transaction Fee on any restructuring or sale as governed by the Engagement Letter. The Financial Advisor requires a charge for assurance that the Transaction Fee will be paid on any restructuring or sale.

Part 3: LEGAL BASIS

1. *Supreme Court Civil Rules*, Rule 8-1, 13-1;
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/2012;
4. Affidavit #1 of J. Reddy, made 31/Jan/2012;
5. Affidavit #1 of A. Purgas, made 11/Feb/2012;
6. Affidavit #4 of B. Baarda, made 12/Feb/2012;
7. Affidavit #1 of W. Dickson, made 10/Feb/2012;
8. Affidavit #5 of B. Baarda, made 1/Mar/2012;
9. Affidavit #2 of W. Dickson, made 2/Mar/2012;
10. The pre and post filing reports of the Monitor; and
11. Such further and other materials as counsel may advise and the Court may permit.

The applicants estimate that the application will take 2 hours.

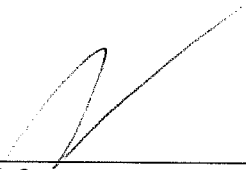
☐ This matter is within the jurisdiction of a master.

☒ This matter is not within the jurisdiction of a master. This matter will be heard before Mister Justice Sewell.

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: 5/Mar/2012



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

Schedule "B"

**No. S120712
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**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
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PETITIONERS

ORDER MADE AFTER APPLICATION

BEFORE THE HONOURABLE)	
MR. JUSTICE SEWELL)	8/March/2012
)	

ON THE APPLICATION of the Petitioners coming on for hearing at Vancouver, British Columbia, on the 8th day of March, 2012; AND ON HEARING, Bill Kaplan, Q.C. and Peter Rubin, counsel for the Petitioners, John Grieve and Kibben Jackson, counsel for the Monitor PricewaterhouseCoopers Inc., and those other counsel listed in **Schedule "B"** hereto; AND UPON READING the material filed;

THIS COURT ORDERS AND DECLARES THAT:

DIRECTORS' AND OFFICERS' CHARGE

1. Paragraph 29 of the Amended and Restated Initial Order of the Court dated February 3, 2012 (the "**Amended and Restated Initial Order**") shall be deleted in its entirety and replaced with the following:

29. The directors and officers of the Petitioners shall be entitled to the benefit of and are hereby granted a charge (the "**D&O Charge**") on the Charged Property (defined below), which charge shall not exceed the aggregate amount of \$31,000,000, as security for the indemnity provided in paragraph 28 of this Order. The D&O Charge shall have the priority set out in paragraphs 51, 52, 54 and 55 herein.

TRUSTEE'S FEES

2. Wilmington Trust FSB in its capacity as Trustee under the Indentures dated as of March 10, 2010 and May 19, 2010 will be considered an "Assistant" pursuant to paragraph 8(c) of the Amended and Restated Initial Order.

KEY EMPLOYEE RETENTION PROGRAM

3. The letter agreements (collectively, the "**KERP Agreements**") pursuant to which the Petitioner Catalyst Paper Corporation ("**CPC**") agreed to provide compensation to key employees (collectively, the "**Key Employees**") in accordance with a key employee retention program ("**KERP**"), as described in the Affidavit #1 of William Dickson, sworn February 10, 2012 and as amended as described in the Affidavit #2 of William Dickson, sworn March 2, 2012, are hereby approved.

4. The Petitioners and Catalyst Paper General Partnership (collectively, the "**Petitioner Parties**") (and any other person that may be appointed to act on behalf of the Petitioner Parties, including without limitation, any trustee, liquidator, receiver, interim receiver, receiver and manager or other person acting on behalf of any such person) is authorized and directed to perform the obligations under the KERP Agreements and the KERP.

5. The Petitioner Parties are hereby authorized to execute and deliver such additional documents as may be necessary to give effect to the KERP Agreements, subject to prior approval of such documents by the Monitor or as may be ordered by this Court.

6. Notwithstanding any other provision of the Amended and Restated Initial Order, the Petitioner Parties shall make all payments to the Key Employees of amounts due and owing under the KERP Agreements at the time specified and in accordance with the terms of the KERP Agreements.

KERP CHARGE

7. The Petitioner Parties are hereby authorized to execute and deliver such additional documents as may be necessary to cancel or terminate any letters of credit and any underlying trust agreements or related documentation relating to the KERP Agreements and the KERP.

8. The Key Employees are hereby granted a charge (the “**KERP Charge**”) on the Notes First Lien Collateral (as defined in the Amended and Restated Initial Order) as security for the obligations of the Petitioner Parties to the Key Employees under the KERP Agreements and the KERP in the aggregate amount of \$8 million. The KERP Charge shall have the priority set out in paragraph 52 of the Amended and Restated Initial Order, as amended by paragraph 15, below.

FINANCIAL ADVISOR

9. Notwithstanding any other provision of the Amended and Restated Initial Order, the engagement of Perella Weinberg Partners LP as financial advisor to the Petitioner Parties (the “**Financial Advisor**”) pursuant to the engagement letter dated October 23, 2011 between the Financial Advisor and CPC (the “**Engagement Letter**”) attached as Exhibit “A” to the affidavit #5 of B. Baarda, made March 1, 2012 and filed herein, is hereby approved. CPC is authorized to carry out and perform its obligations thereunder (including payment of amounts due to be paid pursuant to the terms of the Engagement Letter, including but not limited to any fee under the Engagement Letter to be paid upon a Sale or Restructuring as defined in the Engagement Letter) and the Engagement Letter shall be binding on the Petitioner Parties.

10. All claims of the Financial Advisor pursuant to the Engagement Letter are not claims that may be compromised pursuant to any plan of compromise or arrangement under the *Companies Creditors Arrangement Act*, any proposal under the *Bankruptcy and Insolvency Act* or any other restructuring and no such plan, proposal or restructuring shall be approved that does not provide for the payment of all amounts due to the Financial Advisor pursuant to the terms of the Engagement Letter.

11. Notwithstanding any order in these proceedings, the Petitioner Parties are authorized to make all payments required by the Engagement Letter, including all fees and expenses, when due.

12. The Financial Advisor, its affiliates, partners, directors, employees, agents and controlling persons shall have no liability with respect to any and all losses, claims, damages or liabilities, of any nature or kind, to any person in connection with or as a result of either its engagement by CPC as Financial Advisor or any matter referred to in the Engagement Letter except to the extent such losses, claims, damages or liabilities result from the gross negligence or wilful misconduct of the Financial Advisor in performing its obligations under the Engagement Letter.

FINANCIAL ADVISOR CHARGE

13. The Financial Advisor is hereby granted a charge (the “**Financial Advisor Charge**”) on the Notes First Lien Collateral which charge shall be security for all amounts due to be paid to the Financial Advisor pursuant to the terms of the Engagement Letter, but shall not secure any indemnity for any fees or expenses incurred by the Financial Advisor in connection with any right of indemnity included in the Engagement Letter. The Financial Advisor Charge shall have the priority set out in paragraph 52 of the Amended and Restated Initial Order, as amended by paragraph 15, below.

AMENDED AND RESTATED INITIAL ORDER

14. Subparagraph 8(a) of the Amended and Restated Initial Order shall be deleted in its entirety and replaced with the following:

(a) all outstanding wages, salaries, employee and pension benefits (including long and short term disability payments), vacation pay and expenses (but excluding severance and termination pay) payable before or after the Order Date, in each case incurred in the ordinary course of business and consistent with the relevant compensation policies and arrangements existing at the time incurred (collectively “**Wages**”);

15. Paragraph 52 of the Amended and Restated Initial Order shall be deleted in its entirety and replaced with the following:

52. In respect of the Charged Property which constitutes Notes First Lien Collateral, the priority of the Charges, the 2016 Notes Security, the ABL Facility Security, as among themselves, shall be as follows:

- | | | |
|---------|---|---|
| First | - | the Administration Charge |
| Second | - | any Critical Suppliers' Charge, if ordered by the Court |
| Third | - | the KERP Charge |
| Fourth | - | the D&O Charge |
| Fifth | - | the Financial Advisor Charge |
| Sixth | - | the 2016 Notes Security |
| Seventh | - | the DIP Lenders' Charge |
| Eighth | - | the ABL Facility Security |

16. Paragraph 54 of the Amended and Restated Initial Order shall be deleted in its entirety and replaced with the following:

54. Notwithstanding paragraph 55 of this Order, subject to further order of the Court, the Administration Charge, any Critical Suppliers' Charge, if ordered by the Court, the KERP Charge, the D&O Charge and the Financial Advisor Charge and, shall be subordinate to the Permitted Priority Claims (but only to the extent, in each case, that those Permitted Priority Claims are not subordinate to claims over which the DIP Lenders' Charge has priority).

17. Paragraph 57 of the Amended and Restated Initial Order shall be deleted in its entirety and replaced with the following:

57. Any security documentation evidencing, or the filing, registration or perfection of, the Administration Charge, the DIP Lenders' Charge, any Critical Suppliers' Charge, if ordered by the Court, the KERP Charge, the D&O Charge and the Financial Advisor Charge (collectively, the "**Charges**") shall not be required, and the Charges shall be effective as against the Charged Property and shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected, notwithstanding any failure to file, register or perfect any such Charges. The Charges shall attach to all Charged Property including equipment, inventory, lease, license, occupation permit, or other contractual right notwithstanding any requirement for the consent of any lessor, licensor, or other party to or finance of any such Charged Property, or any other person, and notwithstanding the provisions of any applicable instrument or agreement to the contrary, the failure to obtain such consent shall not constitute a breach of or default under any such license, right of occupation, permit, statute, contractual or other agreement comprising or relating to such Charged Property.

18. Paragraph 61 of the Amended and Restated Initial Order shall be deleted in its entirety and replaced with the following:

61. The Administration Charge, any Critical Suppliers' Charge, if ordered by the Court, the KERP Charge, the D&O Charge, the Financial Advisor Charge, the DIP Credit Agreement, the DIP Documents, the DIP Lenders' Charge, and the ABL Facility Security in respect of the LC Cash Collateral and the Derivatives Cash Collateral shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges and the ABL Facility Security in respect of the LC Cash Collateral and the Derivatives Cash Collateral (collectively, the "**Chargees**") shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made

pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, mortgage, security agreement, debenture, sublease, offer to lease or other agreement (collectively, an “**Agreement**”) which binds the Petitioner Parties; and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Charges nor the LC Cash Collateral nor the Derivatives Cash Collateral nor the execution, delivery, perfection, registration or performance of the DIP Documents shall create or be deemed to constitute a breach by the Petitioner Parties of any Agreement to which they are a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Petitioner Parties entering into the DIP Documents, the creation of the Charges or the LC Cash Collateral or the Derivatives Cash Collateral, or the execution, delivery or performance of the DIP Documents; and
- (c) the payments made by the Petitioner Parties pursuant to this Order, the DIP Documents, or the ABL Facility, and the granting of the Charges and the LC Cash Collateral and the Derivatives Cash Collateral, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

APPROVAL

19. Endorsement of this Order by counsel appearing on this application is hereby dispensed with.

THE FOLLOWING PARTIES APPROVE THE FORM OF THIS ORDER AND CONSENT TO EACH OF THE ORDERS, IF ANY, THAT ARE INDICATED ABOVE AS BEING BY CONSENT:

Signature of

☐ party ☒ lawyer for the Petitioner Parties

Bill Kaplan, Q.C. / Peter Rubin

BY THE COURT.

Registrar

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

Schedule "B"

Name of Counsel	Party