



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

APPLICATION RESPONSE

Application Response of: Wells Fargo Bank, National Association ("Wells Fargo"), in its capacity as the trustee under a trust indenture for the 7 ³/₈% senior notes issued by Norske Skog Canada Limited (n/k/a Catalyst Paper Corporation) ("Catalyst" or the "Company") to noteholders, which are due March 1, 2014.

To: The Service List.

THIS IS A RESPONSE TO the Notice of Application filed by the Monitor on May 2, 2012.

PART 1: ORDERS CONSENTED TO

1. None.

PART 2: ORDERS ON WHICH NO POSITION IS TAKEN

1. The 2014 Indenture Trustee, as defined below, takes no position on the direction sought in paragraph 3 of the Monitor's Notice of Application.

PART 3: ORDERS OPPOSED

1. The 2014 Indenture Trustee opposes the declarations sought in paragraphs 1 and 2 of the Monitor's Notice of Application.
2. In the event the declarations sought in paragraphs 1 and 2 of the Monitor's Notice of Application are to be granted, the 2016 Notes Security ought not to charge any proceeds arising from the realization of the Senior Secured Notes Excluded Assets.

PART 3: FACTUAL BASIS

1. All capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Notice of Application filed by the Monitor on May 2, 2012.
2. Wells Fargo is the trustee (the "**2014 Indenture Trustee**") under a trust indenture for the 7 ^{3/8}% senior notes issued by the Company to noteholders, which are due March 1, 2014 (the "**2014 Noteholders**").
3. The Monitor brings this application in light of an assertion by the 2016 Noteholders that proceeds from a sale of the Senior Secured Notes Excluded Assets are subject to the security held by the 2016 Noteholders.
4. Correspondence from the 2016 Noteholders to the Monitor, dated April 30, 2012 (the "**April 30 Letter**"), indicates an intention to usurp the entitlement of the 2014 Noteholders to proceeds that would arise from a sale of the Senior Secured Notes Excluded Assets.
5. The position taken in the April 30 Letter is:
 - a. inconsistent with positions previously taken by the 2016 Noteholders and the reasonable expectations of the holders of the 2014 Notes;
 - b. being asserted for the first time at a critical and late stage in these proceedings;
 - c. prejudicial to the interests of unsecured creditors, including the 2014 Noteholders; and
 - d. not consistent with the current state of the law and practice in insolvency proceedings.
6. The sales and investor solicitation process order (the "**SISP Order**"), including a stalking horse purchase agreement (the "**Stalking Horse Agreement**") is a central aspect of these insolvency proceedings and issues related to it have been before the parties and the Court for some time. At no time previous to the April 30 Letter, including at the hearing approving the SISP Order, did the 2016 Noteholders give any indication that they would claim a security interest in the proceeds from the sale of the Senior Secured Notes Excluded Assets.
7. The creditors meeting to vote on the Plan is scheduled for May 15, 2012. As such, the 2016 Noteholders are raising a material issue that could have been raised far earlier in

these proceedings and may significantly affect the Plan vote only two weeks before the scheduled voting, in a manner prejudicial to stakeholders.

8. The 2016 Noteholders are raising a complex issue that should not be resolved on a summary basis and absent proper notice and timing considerations.
9. If this Application is to be made, the 2016 Noteholders should carry the costs and burdens associated therewith.
10. In any event, the position of the 2016 Noteholders has no basis in established law and practice in insolvency proceedings. There is no reasonable foundation for an argument that the 2016 Noteholders' security attaches to proceeds of a proposed sale or liquidation of assets to which that security does not attach.
11. If the 2016 Noteholders' position is correct, a party with security over deposit accounts would, in the case of any all cash liquidation of assets, effectively have security over all of the assets of the liquidated entity that are monetized. Practically, the 2016 Noteholders' position would result in no assets being excluded from the 2016 Notes Security. Adopting the approach claimed by the 2016 Noteholders would effect a legal absurdity that would also leave unsecured creditors, including the 2014 Noteholders, without any value in the event of Plan failure.

PART 4: LEGAL BASIS

1. *Companies' Creditors Arrangement Act*, RSC 1985, c C-36, as amended.
2. The inherent and equitable jurisdiction of this Honourable Court.
3. Such further and other grounds as counsel may advise and this Honourable Court may permit.

PART 5: MATERIAL TO BE RELIED ON

1. The pleadings and proceedings filed herein.
2. Such further and other materials as counsel may advise and this Honourable Court may permit.

The application respondent estimates that the application will take: 10 minutes.

[x] The application respondent has filed in this proceeding a document that contains the application respondent's address for service.

[] The application respondent has not filed in this proceeding a document that contains an address for service. The application respondent's ADDRESS FOR SERVICE is: Royal Bank Plaza, South Tower, Suite 3800, 200 Bay Street, P.O. Box 84, Toronto Ontario M5J 2Z4.

Date: May 7, 2012

A handwritten signature in black ink, appearing to read "Orestes", written over a horizontal line.

Signature of Orestes Pasparakis

[] Applicant [x] Lawyer for Wells Fargo
Bank, National Association

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

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PETITIONERS

APPLICATION RESPONSE

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