

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: 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 July 25, 2012 at 10:00 a.m. for the orders set out in Part 1 below.

Part 1: ORDER(S) SOUGHT

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

Part 2: FACTUAL BASIS

1. On January 31, 2012, the Court granted an Initial Order (the “**Initial Order**”) in respect of the Petitioners and Catalyst Paper General Partnership (collectively the “**Company**”). The Initial Order appointed PricewaterhouseCoopers Inc. as the monitor of the Company (the “**Monitor**”) in the CCAA proceedings. On February 3, 2012, the Court granted an Order amending and restating the Initial Order (the “**Amended and Restated Initial Order**”).
2. The Company has a property insurance policy for various properties located in B.C. and the USA associated with its business (the “**Insurance Policy**”).
3. Aon Reed Stenhouse Inc. (“**Aon**”) is the Company’s insurance broker in relation to the Insurance Policy. For the past three years, Macquarie Premium Funding Inc. (“**Macquarie**”) has provided the Company with financing services in respect of the premiums for the Insurance Policy.
4. The Company has historically financed the premiums for the Insurance Policy in its ordinary course of business. Collectively, the agreements between CPC and Macquarie (the “**Old Financing Agreements**”) include the financing for the Insurance Policy.
5. Pursuant to the Old Financing Agreements, CPC had assigned to Macquarie the right to cancel the Insurance Policy in the event of a default by CPC under the agreement as well as CPC’s right to receive any unearned insurance premiums (the “**Unearned Premiums**”) in the event that the Insurance Policy are cancelled. The Old Financing Agreements also provide Macquarie with a security interest for the amounts outstanding and owing to Macquarie under the Old Financing Agreements over the Unearned Premiums.
6. Macquarie has changed its name to First Insurance Funding of Canada (“**First Insurance**”).
7. The Insurance Policy was renewed on July 1, 2012 and payment is due to the insurer on August 1, 2012.
8. Because the Old Financing Agreements have expired, the Company and First Insurance intend on entering into new agreements that are substantially similar to the Old Financing Agreements (the “**New Agreements**”), financing the premiums of the renewed Insurance Policy. The amount to be financed pursuant to the New Agreements is approximately \$4.6 million (mixed US and CDN currencies). The down payment and first payment in regard to the New Agreements is due no later than August 1, 2012. As with the Old Financing Agreements, the Company will repay First Insurance by way of a 25% deposit and nine monthly payments. The New Agreements shall have substantially the same terms and provisions respecting the Unearned Premiums and cancellation of the Insurance Policy that are contained in the Old Financing Agreements.
9. Pursuant to the terms of the New Agreements with First Insurance, First Insurance will have a first priority interest in the Unearned Premiums.

10. First Insurance has advised that it will not enter into the New Agreements unless the Company obtains a Court Order authorizing CPC to enter into the New Agreements and approving of First Insurance's right to cancel the Insurance Policy and have a first priority security interest over the Unearned Premiums, in order to protect First Insurance in respect of this new advance of credit.

11. It is in the best interests of CPC to continue with this business relationship with First Insurance in respect of the Insurance Policy and to relieve the Company from the requirement to fund the full premium amount at this time.

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 A. MacCallum, made [10/Jul/2012].

The applicants estimate that the application will take 5 minutes.

[*Check the correct box*]

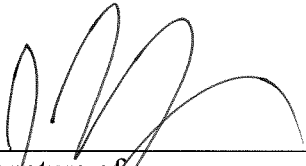
- This matter is within the jurisdiction of a master.
- This matter is not within the jurisdiction of a master. This matter is to be heard before Mr. Justice Sewell who is seized of this proceeding.

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: July 20, 2012



Signature of
 applicant lawyer for applicant(s)
Bill Kaplan, Q.C. / Peter L. Rubin / Jeff
Langlois

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"

**No. S120712
Vancouver Registry**

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PETITIONERS

ORDER MADE AFTER APPLICATION

BEFORE THE HONOURABLE)
MR. JUSTICE SEWELL) July 25, 2012
)

ON THE APPLICATION of the Petitioners coming on for hearing at Vancouver, British Columbia, on the 25th day of July 2012; AND ON HEARING, Bill Kaplan, Q.C. and Peter L. Rubin, counsel for the Petitioners, and John Grieve, 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:

1. The agreements between Catalyst Paper Corporation (“CPC” with the Petitioners and Catalyst Paper General Partnership, the “**Petitioner Parties**”) and First Insurance Funding of Canada Inc. (“**First Insurance**”) as described in the Affidavit #1 of Alistair MacCallum, made July 10, 2012 (the “**New Agreements**”) constitute a valid and binding obligation of CPC enforceable against it and any trustee in bankruptcy or other successor in interest to CPC in accordance with the terms thereof, and that the payments made pursuant thereto do not and will not be deemed to constitute fraudulent preferences or other challengeable or reviewable transactions under any applicable law.

2. Each of the obligations charging the Unearned Premiums (defined below) will constitute valid and binding obligations of the Petitioner Parties thereby creating a first-ranking security interest on the Unearned Premiums (defined below), ranking in priority to all other security interests, trusts, liens, mortgages, charges and encumbrances and claims of secured creditors, statutory or otherwise, including the Charges (as defined by the Order of the Court date February 3, 2012, as amended), whether existing as of the date hereof or arising in the future, enforceable against it and any trustee in bankruptcy or successor in interest to the Petitioner Parties in accordance with the terms hereof, and that each charge so created does not and will not and every payment made or to be made pursuant to the New Agreements are not and will not be deemed to constitute fraudulent preferences or other challengeable or reviewable transactions under applicable law.

3. Notwithstanding the stay of proceedings instituted by the Initial Order of the Court dated January 31, 2012, as amended and extended, or any other order of this Court, if the Company defaults under the terms of the New Agreements, First Insurance be and is hereby authorized in accordance with the terms of the New Agreements and without further Court order to:

- (a) cancel the policies of insurance referred to in the New Agreements and any renewal or replacement policies (the “**Policies**”); and
- (b) apply for, receive, and retain all unearned insurance premiums (plus applicable taxes), dividends or other income arising under the Policies and, subject to any

mortgagee or loss payee interest, loss payments that reduce the unearned insurance premiums under the Policies ("**Unearned Premiums**").

APPROVAL

4. Endorsement of this Order by counsel appearing on this application, other than counsel for the Petitioners, 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

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