

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" (collectively, "Catalyst")

To: The Service List

TAKE NOTICE that an application will be made by the applicants to the presiding judge at the courthouse at 651 Carnarvon Street, New Westminster, British Columbia on Monday, February 25, 2013 at 9 a.m. for the orders set out in Part 1 below.

Part 1: ORDERS SOUGHT

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

Part 2: FACTUAL BASIS

Background

1. On June 18, 2012, the Petitioners were authorized to file a Second Amended and Restated Plan of Compromise and Arrangement (the “**Plan**”) and call a meeting of their creditors to vote on the Plan.
2. On June 25, 2012, the Petitioners called meetings for their secured and unsecured creditors to vote on the Plan. The Plan was approved by the requisite number of the Petitioners’ creditors.
3. On June 28, 2012, the Plan was approved by the Court (the “**Sanction Order**”).
4. As described in more detail in the Plan, Catalyst’s assets include Powell River Energy Inc. (“**PREI**”). The Unsecured Creditors are to receive distributions under the Plan of their pro rata share of 50% of the net proceeds of the sale of PREI-related assets (subject to adjustment depending on equity elections and convenience claims).

PREI & Powell River LP

Overview

5. Catalyst Paper Energy Holdings Inc. (“**Catalyst Energy**”) owns a 50.001% interest in PREI and 49.95% interest in Powell River Energy Limited Partnership (“**Powell River LP**”).
6. Catalyst Energy and PR Energy Trust are the sole limited partners of the Powell River LP.
7. Catalyst Energy owns a 50.001% interest in PREI and a 49.95% interest in the Powell River LP.
8. PREI owns the Powell Lake and Lois Lake hydro dams, generating equipment and transmission infrastructure, located near Powell River, BC, which have a total installed power capacity of approximately 83 megawatts.

9. PREI sells the power produced at the generating stations to Catalyst pursuant to a power purchase agreement.
10. In or around January 31, 2001, Catalyst sold a 49.999% interest in PREI to PR Energy Trust, which is owned directly or indirectly by Brookfield Renewable Energy Partners LP (“**Brookfield**”).
11. Brookfield Power Services Inc., an affiliate of Brookfield, manages and operates the facilities on PREI’s behalf.
12. Pursuant to the PREI shareholders’ agreement and the partnership agreement of the Powell River LP, Brookfield has a right of first refusal, under certain conditions, to acquire Catalyst’s equity interest in PREI. Brookfield also has piggy-back rights, which permits it to require a third-party purchaser to acquire 100% of Brookfield’s interest in PREI.

The Marketing Process

13. Following the commencement of the sale and investor solicitation process (the “**SISP**”), approved pursuant to an Order of the Court dated March 22, 2012, as amended April 4, 2012, the Company, with the assistance of its financial advisor Perella Weinberg Partners LLP (“**Perella**”), began marketing the Company’s interest in PREI and the Powell River LP (collectively, the “**Powell River JV**”).
14. Prior to the sanctioning of the Plan, the Powell River JV was marketed with the Company’s other assets and interests. The Company, with the assistance of Perella, contacted approximately 75 potential bidders as part of the SISP. A number of those parties signed confidentiality agreements and were provided with information relating to the Company’s assets, including the Powell River JV.
15. Following the sanctioning of the Plan, the marketing efforts in relation to the Powell River JV continued. Approximately 13 energy companies were identified (and later contacted) as having a potential interest in the Powell River JV.

16. A number of the above-noted energy companies expressed an initial interest in the Powell River JV and were provided with further information. Certain of those companies subsequently executed non-disclosure agreements and were provided with access to a confidential data room containing information about the Powell River JV.

17. The Company also provided notice to PR Energy Trust of its intention to sell the Company's interest in the Powell River JV, such notice being provided pursuant to the PREI shareholders agreement and Powell River LP partnership agreement. Throughout the marketing process of the Powell River JV, the Company was aware that PR Energy Trust was likely an interested party.

18. Following the Order of the Court dated June 28, 2012 approving the Plan, PR Energy Trust's interest in a potential purchase of the Powell River JV increased. Discussions ensued between the Company and Brookfield. A number of term sheets were exchanged with the parties reaching an agreement as described below.

19. Throughout the Powell River JV marketing process, the Monitor has been kept informed of the marketing efforts regarding the Powell River JV. In particular, the Monitor was provided with copies of the term sheets exchanged between PR Energy Trust and the Company.

The Agreement

20. On February 13, 2013, CPC, Catalyst Energy and PR Energy Trust entered into an agreement in respect of the sale and purchase of Catalyst Energy's shares and shareholder loans of PREI and limited partnership interest and interest in partnership debt in Powell River LP, as well as other related assets, for CDN \$33 million (the "**Agreement**").

21. Catalyst will continue to have the right to purchase electricity from PREI for the Mill pursuant to an amended power purchase agreement.

The Purchase Price is Fair and Reasonable

22. Based on the lengthy and comprehensive marketing history for the Powell River JV, the Company believes the Agreement represents the best sale outcome for the Company with respect

to this asset. The Agreement provides the best available price for the Powell River JV in light of the current market conditions and the applicable circumstances.

23. The consummation of the transaction described in the Agreement has a number of benefits, including:

- (a) a sale of the assets for the highest achievable price and greatest consideration;
- (b) payout to certain unsecured creditors of their pro rata share of 50% of the net proceeds of the sale of the Powell River JV (subject to adjustment for equity elections and convenience claims) following the closing of the Agreement, as provided under the Plan;
- (c) the consummation of the transaction will enable the Company to avoid any additional costs associated with the continued marketing of the Powell River JV as well as the possibility that any later transaction may include a lower purchase price;
- (d) the Agreement does not impair Catalyst's electricity supply for the Mill; and
- (e) the Agreement will generate cash for Catalyst.

The Monitor

24. The Monitor outlined the estimated value of the Powell River JV in its Ninth Report dated April 10, 2012 (the "9th Report"). As set out in Appendix B of the 9th Report, the Monitor estimated the value at between \$26 million and \$37.2 million. The purchase price under the Agreement is above the mid-point of that estimate.

Part 3: LEGAL BASIS

1. Supreme Court Civil Rules, Rule 8-1, 13-1;
2. *Canada Business Corporations Act*, S.C. 1985, c. C-44, s. 191;
3. *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended; and
4. The inherent and equitable jurisdiction of the Court.

Part 4: MATERIAL TO BE RELIED ON

1. Affidavit #9 of R Lindstrom, made February 18, 2013; and
2. Such further and other materials as counsel may advise and the Court may permit.

The applicants estimate that the application will take 20 minutes.

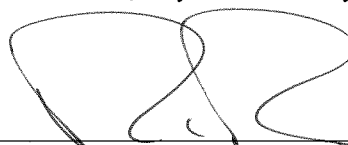
[Check the correct box]

- This matter is within the jurisdiction of a master.
- This matter is not within the jurisdiction of a master. Mr. Justice Sewell 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: February 18, 2013



Signature of
 applicant lawyer for Petitioners
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
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

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ORDER MADE AFTER APPLICATION

BEFORE THE HONOURABLE)
MR. JUSTICE SEWELL) February 25, 2013
)

ON THE APPLICATION of the Petitioners coming on for hearing at New Westminster, British Columbia, on the 25th day of February 2013; AND ON HEARING, Peter L. Rubin and Andrew Crabtree, counsel for the Petitioners, and those other counsel listed in **Schedule "B"** hereto; AND UPON READING the material filed;

THIS COURT ORDERS AND DECLARES THAT:

1. The time for service of the Notice of Application and the materials referred to therein be and is hereby abridged and the Notice of Application is properly returnable today.

2. The transaction (the “**Transaction**”) contemplated by the agreement (the “**PREI Agreement**”) among Catalyst Paper Corporation (the “**Company**”), Catalyst Paper Energy Holdings Inc. (“**CP Energy**”) and Powell River Energy Trust (“**PR Energy Trust**”), dated February 13, 2013 and attached as Exhibit “A” to the Affidavit #9 of Robert Lindstrom, made February 18, 2013, and the PREI Agreement, are hereby approved.

3. CP Energy and the Company are authorized to execute any documents in furtherance of the Transaction as contemplated by the PREI Agreement, to take such additional steps and execute such additional documents as may be necessary or desirable for the completion of the Transaction including, without limitation, the transfer of the Securities and other assets (as more particularly described in the PREI Agreement) (collectively, the “**Purchased Assets**”) to PR Energy Trust.

4. The Company and CP Energy are hereby ordered and directed to deliver to the Monitor within three (3) business days following the closing of the Transaction, an amount equal to 50% of the net proceeds received on account of the Transaction less that amount as identified by the Monitor, determined in accordance with the Second Amended and Restated Plan of Compromise and Arrangement dated June 14, 2012 and approved by Order of the Court dated June 28, 2012 (the “**Plan**”), that is not required to be distributed to unsecured creditors (the “**Net Proceeds**”).

5. The Monitor is hereby directed to distribute the Net Proceeds in accordance with the terms of the Plan.

6. Notwithstanding:

- (a) the pendency of these proceedings;
- (b) any applications for a bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) in respect of any of the Petitioners and Catalyst Paper General Partnership (collectively, the “**Petitioner Parties**”) and any bankruptcy order issued pursuant to any such applications;
- (c) any assignment in bankruptcy made in respect of any of the Petitioner Parties; and

- (d) any applications for an order now or hereafter issued pursuant to the *Winding-up and Restructuring Act* (Canada) in respect of any of the Petitioner Parties and any winding up order issued pursuant to any such application,

the transfer of the Purchased Assets shall be binding on any trustee in bankruptcy that may be appointed in respect of the Company and shall not be void or voidable by creditors of the Company, nor shall it constitute nor be deemed to be a settlement, fraudulent preference, assignment, fraudulent conveyance or other reviewable transaction under the *Bankruptcy and Insolvency Act* (Canada) or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

7. This Order shall have full force and effect in all provinces and territories in Canada against all persons, firms, corporations, governmental, municipal and regulatory authorities against whom it may otherwise be enforceable.

8. The Company is granted liberty to apply for further directions and relief as may be necessary to carry out this Order.

AID AND RECOGNITION OF THIS ORDER

9. THIS COURT REQUESTS the aid of other Canadian and foreign Courts, tribunal, regulatory or administrative bodies, including any Court or administrative tribunal of any Federal or State Court or administrative body in the United States of America, (including, without limitation, the United States Bankruptcy Court), to act in aid of this Court in approving the terms of the Transaction as set forth in the PREI Agreement where required. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to (i) make such orders and to provide such assistance to the Petitioner Parties and to the Monitor, as an officer of this Court, as may be necessary or desirable to approve the Transaction, (ii) grant representative status to any of the Petitioners Parties, and to the Company on behalf of any or all of the Petitioner Parties, in any foreign proceeding, and (iii) assist the Petitioners Parties, the Monitor and the respective agents of each of the foregoing in carrying out the Transaction as set forth in the PREI Agreement.

TERMINATION OF PROCEEDINGS

10. Other than:

- (a) the duties, obligations and responsibilities of the Monitor as set out in paragraphs 14, 40, 43 and 44 of the Order of the Court dated June 28, 2012; and
- (b) the duties, obligations and responsibilities of the Petitioner Parties related to PREI and the PREI Proceeds Pool (both as defined in the Plan),

the within proceedings are concluded and, accordingly, terminated and closed and the Petitioner Parties are discharged and released from these CCAA proceedings including any Orders made herein.

APPROVAL

11. Endorsement of this Order by counsel appearing on this application, other than counsel for the Petitioner Parties, 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
Peter Rubin

BY THE COURT.

Registrar

Schedule "A"

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The Apache Railway Company

Schedule "B"

Name of Party	Counsel Name