No. __________
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 AS AMENDED

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 APPENDIX "A" (COLLECTIVELY THE "COMPANY")

PROPOSED MONITOR'S PRE-FILING REPORT TO COURT
(Prepared for the January 31, 2012 Court Hearing)

JANUARY 31, 2012

pwc

CATALYST PAPER CORPORATION, ET AL

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JANUARY 31, 2012

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CATALYST PAPER CORPORATION, ET AL

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1. INTRODUCTION

1.1 PricewaterhouseCoopers Inc. ("PwC" or the "Proposed Monitor") was informed that on January 31, 2012, Catalyst Paper Corporation and the petitioners listed in Appendix "A" (collectively referred to as "Catalyst" or the "Company") will be making an application to the Supreme Court of British Columbia (the "Court") for an order (the "Initial Order") granting a stay of proceedings against Catalyst until February 14, 2012 (the "Stay Period") pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA").

1.2 On the application for the Initial Order, the Company will be seeking an order that PwC be appointed the Monitor of the Company in the CCAA proceedings. PwC is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended, and is not subject to any of the restrictions on who may be appointed as monitor as set out in section 11.7(2) of the CCAA. PwC was previously engaged by the Company to assist it in preparing for a filing under the CCAA in the event that one was necessary. PwC has consented to act as Monitor.

1.3 The purpose of this limited scope report is to provide the Court with the Proposed Monitor's views on the following matters to be addressed on the application for the Initial Order:

1.3.1 The validity and priority in British Columbia of the security granted by the Petitioners to JPMorgan Chase Bank N.A. as collateral agent for the ABL Facility;

1.3.2 The Company's statement of projected cash flow for the period from January 31 to April 30, 2012 (the "Cash Flow Statement");

1.3.3 The Company's request for authorization to pay certain key suppliers for expenses incurred prior to the date of the Initial Order, should that be necessary; and

1.3.4 The Company's request for a charge (the "D&O Charge") in favour of its directors and officers as security for the Company's obligation to indemnify its directors and officers ("D&Os") for any obligations and liabilities that they may incur as directors or officers of the Company after the commencement of the CCAA Proceedings.

1.4 This report is not intended to be a comprehensive review of the affairs of the Company. It is the intention of PwC to file a comprehensive report in advance of a hearing to be held on or before February 14, 2012 (the "Comeback Hearing"). In addition, if so directed by this Court, PwC will provide a further report regarding the proposed DIP Lender's Charge and Critical Suppliers Charge, which PwC understands are to be the subject of a further application on February 3, 2012.

1.5 Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars. Capitalized terms not otherwise defined herein are as defined in the Company's application materials, including the first affidavit of Brian Baarda dated January 31, 2012 (the "Baarda Affidavit").

2. REVIEW OF SECURITY

2.1 Fasken Martineau DuMoulin LLP ("Faskens"), as counsel to the Proposed Monitor, has reviewed the security granted by the Company over their current assets (primarily inventory and receivables) in favour of JPMorgan Chase Bank, N.A. as collateral agent (the "Lender") in order to opine on its validity in British Columbia.

2.2 Should the Initial Order be granted, the Proposed Monitor will ask Faskens to complete a review of the security granted by the Company in all other relevant Canadian jurisdictions and also to coordinate a security review in the relevant jurisdictions of the United States. Due to time limitations, the costs involved and the fact that there has been no Initial Order pronounced, the Proposed Monitor has asked Faskens to limit its review of the Security to only British Columbia. Based on the Proposed Monitor's preliminary assessment, the Company's current assets in British Columbia charged by the Security granted by the Company in favour of the Lender are of sufficient value to secure any repayment which might be made of the existing ABL Facility in the period prior to the Comeback Hearing. Practically, if the Security is valid in British Columbia, it would mean that no other creditor would be prejudiced by any repayment of the ABL Facility as the Lender would be able to recover such amounts in any event.

2.3 In this regard, Faskens has opined that, subject to customary assumptions, limitations and provisos, the Security is valid and enforceable in British Columbia and creates a first contractual charge on the current assets of the Company in British Columbia.

3. CASH FLOW FORECAST

3.1 The Cash Flow Statement and the Proposed Monitor's conclusions from its review of the Cash Flow Statement pursuant to section 23(b) of the CCAA are attached as Appendix B to this report.

3.2 The Cash Flow Statement indicates the following:

3.2.1 In the period to February 19, 2012 (the week in which the Stay Period terminates), the Company is forecast to have net negative cash flow of $20.8 million. This includes the payment of certain pre-filing obligations as may be authorized by the Initial Order, including pre-filing payroll obligations;

3.2.2 At the outset of the CCAA proceedings, the Company is forecast to owe $81.0 million under the ABL Facility. Under the terms of the proposed DIP Credit Agreement, post-filing collection of pre-filing accounts receivable are to be used first to repay the outstanding balance of the ABL Facility. The Cash Flow Statement indicates that the ABL Facility is forecast to be fully repaid in the period ending February 29, 2012;

3.2.3 As funds collected post-filing will be used first to repay the existing ABL Facility, and in order to maintain a sufficient cash balance, the Company is forecast to draw a total of $46.5 million on the DIP Facility to fund operations through the week ending February 19, 2012.

4. KEY SUPPLIERS

4.1 Paragraph 7 of the proposed Initial Order provides, among other things, for the following:

> 7. Subject to the terms and conditions of and availability under the DIP Facility, the Petitioner Parties shall be entitled, but not required, to pay the following expenses which may have been incurred prior to the Order Date:
>
> [. . .]
>
> (d) all amounts owing for goods and services actually supplied to the Petitioner Parties:
>
> (i) by chemical suppliers, fibre suppliers, utility and fuel suppliers, old newspaper suppliers and other related products, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties, the supplier is critical to the business and ongoing operations of any of the Petitioner Parties;
>
> (ii) by freight and logistics suppliers, third party customs brokers, agents, freight carriers, freight forwarders, warehousemen, and shippers, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties, the party providing the good or service is critical to the business and ongoing operations of any of the Petitioner Parties; and
>
> (iii) by other parties providing goods or services, with the prior consent of the Monitor and the DIP Agent, if, in the opinion of the Petitioner Parties, the supplier is critical to the business and ongoing operations of any of the Petitioner Parties.

4.2 The Proposed Monitor understands that on February 3, 2012, the Company plans to apply for an order requiring critical suppliers to continue to supply to the Company pursuant to section 11.4(2) of the CCAA, and to declare a charge in favour of critical suppliers pursuant to section 11.4(3) of the CCAA.

4.3 As indicated in the Baarda Affidavit, the Proposed Monitor has discussed the Company's evaluation of the suppliers that it considers key to the Company's ongoing operations with senior management of the Company, and has reviewed the Company's intentions for dealing with these suppliers during the CCAA proceedings. We set out below the Proposed Monitor's considerations in this regard.

4.4 The Company's business is dependent, *inter alia*, on the ongoing provision of key goods and services, including the following:

4.4.1 Ability to obtain raw material inputs, including wood fibre, chemicals, and old newsprint ("ONP"), to be used in the paper manufacturing process;

4.4.2 Continued supply of energy and utilities, including electricity and gas, to power the Company's mills and continue manufacturing;

4.4.3 Maintenance of the Company's specialized production equipment; and

4.4.4 Transportation of both raw material inputs and finished products.

4.5 These goods and services are provided by a range of suppliers, many of whom are considered critical by the Company. The Proposed Monitor considered the following in order to assess whether a particular supplier is critical to the Company:

4.5.1 The unique nature of goods/services supplied, and the ability to substitute supply;

4.5.2 The volume supplied, and the ability to substitute that volume; and

4.5.3 The impact of loss of supply on operations.

4.6 In summary, certain suppliers to the Company are considered key suppliers for the following reasons:

4.6.1 The Company maintains limited supplies of raw material inputs at its mills, and they rely on continuous (often just-in-time) shipments of significant volumes of raw materials as part of their ongoing production. Suppliers of these inputs generally cannot be substituted easily in the short term because of the large volumes required, the product or chemical specifications of those inputs needed for the manufacturing process, or due to the limited number of global suppliers of those inputs.

4.6.2 Energy is critical to the manufacturing process. In addition to being a major consumer of electricity, the Company also relies on fossil fuel inputs at its various mills. Many of these energy providers are currently backstopped by letters of credit, which are expected to be fully drawn against the outstanding pre-filing obligations of the Company.

4.6.3 The production equipment to produce paper and Kraft pulp is designed to operate at high speeds and efficiencies. Some components experience normal wear from continuous use and are designed specifically for certain machines and operating conditions. This includes machine clothing, large machine rolls, and electronic control mechanisms, which are made to a custom specification by the Company's current suppliers. In addition, there are specialized maintenance functions that need to be performed on a periodic basis to comply with safe running procedures and applicable regulations. There are a limited number of suppliers and service providers globally that can do this work.

4.6.4 Multiple modes of transport are used by the Company to carry both raw materials and finished goods. Many of these suppliers will have goods in transit as at the date of filing, and will have the ability to assert a possessory lien over those goods. Some of these transporters carry a significant volume of the Company's goods (particularly for sea and rail), and would be difficult or impossible to substitute in the short term. Certain road carriers are sole-sourced because they are the only carrier on given routes for the Company today, and the Company may not be able to obtain a cost-effective alternative carrier in the short run.

4.7 Any interruption of the supply of these goods or provision of these services could have an adverse impact on the Company's business, operations and cash flow. In some cases this impact would be immediate, and for others the full impact would be felt within 1-2 weeks. For many of these inputs, particularly chemical inputs, this is insufficient time to find an alternate or substitute source of supply.

4.8 Based on the foregoing, the key suppliers identified by the Company could potentially have a significant negative impact on operations by refusing to supply post-filing, notwithstanding the provisions of the CCAA and the Initial Order requiring continued supply. The Company anticipates that this negative impact can be mitigated by allowing the Company, where necessary, to make payment of some pre-filing obligations or deposits to these suppliers, or potentially by the declaration of a charge in favour of certain of those suppliers. The Company expects that any such payments or declarations will be tied to actual receipt of goods and services after the date of the Initial Order, or the granting of mutually agreeable credit terms.

4.9 If the Initial Order is granted as proposed and the appointment of the Proposed Monitor is confirmed, the Proposed Monitor will in each instance be able to make an independent assessment of each supplier that the Company considers to be critical. In doing so, the Proposed Monitor will consider the Company's analysis of that supplier together with the key factors set out above and its knowledge of the Company's operations.

5. D&O CHARGE

5.1 The proposed Initial Order provides for the creation of the D&O Charge over the Company's assets in favour of the D&Os as security for the Company's obligation to indemnify its D&Os for any obligations and liabilities that they may incur as directors or officers of the Company after the commencement of the CCAA proceedings. The proposed D&O Charge is in the aggregate amount of $31 million.

5.2 The Proposed Monitor understands that the amount of the D&O Charge was calculated based on the estimated maximum liability of the D&Os arising from statutory obligations for employee related liabilities and sales taxes that may arise and be payable during the CCAA proceedings. The potential employee-related liabilities were calculated according to the provisions of the *Canada Business Corporations Act* ("CBCA") as that is the statute under which Catalyst Paper Corporation is incorporated.

5.3 The estimate of the maximum exposure included the following:

5.3.1 Employee related liabilities for salaries and wages and the cost of supplemental benefits (such as health care and group life insurances), based on the recent average of employee costs that accrue between payment intervals in normal course operations;

5.3.2 Employee related liabilities for the cost of post retirement benefits and vacation pay accruing in a six month period, based on the Company's recent average benefit and salary costs. This assumes that no active employees retire during the CCAA proceedings and thereafter begin collecting benefits, which would reduce the D&Os' potential exposure. This also assumes that there would be a limited payment of accrued vacation obligations during the proceedings; and

5.3.3 Harmonized Sales Tax ("HST") obligations for the two Petitioners that have historically been net remitters of HST, based on their average monthly remittances over the past year. Other Petitioners are normally in a net refund position based on the input tax credits that they generate.

5.4 The proposed Initial Order provides that D&Os shall only be entitled to the benefit of the D&O Charge to the extent that they do not have coverage under any D&O insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with the Initial Order. In this regard we note the following:

5.4.1 The Company's existing D&O insurance policy (the "Policy") provides up to $100 million in coverage for obligations for which the D&Os may be liable. This includes, but is not limited to, employee related liabilities and HST in Canada. It does not include coverage for employee related liabilities arising from operations in the United States; and

5.4.2 The Policy expires on May 1, 2012. As indicated in the Baarda Affidavit, if the insurers agreed to renew the Policy after the commencement of the CCAA proceedings, there would likely be a significant increase in the premium for that insurance.

5.5 Faskens has conducted a preliminary review of the Policy. The Policy is granted by a reputable insurer and does appear to insure against most statutory liabilities in an amount sufficient to cover any obligations which might arise during the CCAA proceedings. The Policy does however present several concerns which could reasonably be expected to deter a prudent individual from continuing to serve as a director or officer in the absence of further assurance of indemnification for defence costs and potential liabilities. These include the following:

5.5.1 The D&Os have expressed concern about the pending expiry of the Policy. While the Initial Order purports to require insurers to renew insurance, it is possible that the insurance provider may contest its obligation to do so. Should that happen, it may be difficult to identify a substitute insurer as coverage becomes much more difficult to obtain during a CCAA proceeding and, in any event would likely come at much greater cost and on inferior terms;

5.5.2 The Policy does not cover claims under pension benefits standards and workers compensation legislation;

5.5.3 The Policy does not cover employee claims against the D&Os for damages in lieu of notice, the typical measure of termination damages in Canada, or punitive damages in employment cases;

5.5.4 The Policy restricts coverage for claims by or in right of the corporation, including derivative claims, or claims brought directly by the corporation after a change in management. For example, a derivative action "assisted" by any former executive is excluded;

5.5.5 The Policy does not cover claims brought by current or former (within three years) D&Os; and

5.5.6 D&Os of a corporation may be subject to a full range of third party commercial tort claims that can arise from business operation. Such claims can be very expensive to defend, and are difficult to dismiss summarily. Some such claims may be framed to include allegations that, if proven, may fall outside coverage. The Policy provides that the insurer pays only 80% of the defence costs in mixed claims (i.e. those where part of the claims are covered and part are excluded from coverage), leaving the D&Os (or the corporation) to pay the balance.

5.6 In light of the foregoing issues, and the fact that any D&O Charge is only accessible after recourse to the Policy, the Proposed Monitor supports the creation of a D&O Charge of sufficient guarantee to backstop the Company's indemnity obligation to the D&Os. The Proposed Monitor notes, however, that section 11.51(3) of the CCAA requires this Court to access the adequacy of the Policy and the cost thereof before granting the charge.

This report is respectfully submitted this 31th day of January, 2012.

PricewaterhouseCoopers Inc.
Proposed Court Appointed Monitor of
Catalyst Paper Corporation et al

Michael J. Vermette
Senior Vice President

APPENDIX A

List of Petitioners

CATALYST PAPER CORPORATION, ET AL

PROPOSED MONITOR'S PRE-FILING REPORT TO COURT
JANUARY 31, 2012

<u>List of Petitioners</u>

Catalyst Paper Corporation
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

APPENDIX B

Cash Flow Forecast

CATALYST PAPER CORPORATION, ET AL

PROPOSED MONITOR'S PRE-FILING REPORT TO COURT
JANUARY 31, 2012

Review of the Proposed Monitor

1. The Cash Flow Statement attached as Appendix A to this report has been prepared by the Company for the purpose described in Note 1, using the Probable and Hypothetical Assumptions set out in Notes 2 to 16.

2. The Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussion related to information supplied to the Proposed Monitor by certain of the management and employees of the Company. Since Hypothetical Assumptions need not be supported, the procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Proposed Monitor has also reviewed the support provided by management of the Company for the Probable Assumptions, and the preparation and presentation of the Cash Flow Statement.

3. Based on the Proposed Monitor's review, nothing has come to our attention that causes us to believe that, in all material respects:

    a. The Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Statement;

    b. As at the date of this report, the Probable Assumptions developed by management are not suitably supported and consistent with the plans of the Companies or do not provide a reasonable basis for the Cash Flow Statement, given the Hypothetical Assumptions; or

    c. The Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.

4. Since the Cash Flow Statement is based on Assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report.

5. The Cash Flow Statement has been prepared solely for the purpose described in Note [1] to the Cash Flow Statement, and readers are cautioned that it may not be appropriate for other purposes.

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CCAA Cash Flow Forecast for the Period January 31, 2012 to April 30, 2012

In CAD$ millions

Period #	1	2	3	4	5	6	7	8	9	10	11	12	13	
Calendar Days in Period	**5**	**7**	**7**	**7**	**3**	**11**	**7**	**7**	**6**	**8**	**7**	**7**	**8**	**90**
Period Ended	**5-Feb**	**12-Feb**	**19-Feb**	**26-Feb**	**29-Feb**	**11-Mar**	**18-Mar**	**25-Mar**	**31-Mar**	**8-Apr**	**15-Apr**	**22-Apr**	**30-Apr**	**Total**
Receipts - Operating														
Collection of Trade Accounts Receivable	6.0	29.9	15.0	10.0	18.0	35.9	30.6	25.6	25.6	24.1	29.1	24.1	28.9	**302.6**
Collection of Other Accounts Receivable	0.4	1.9	0.6	0.6	3.1	1.5	1.1	1.1	6.8	1.1	1.1	1.1	2.4	**23.1**
Total Receipts - Operating	**6.4**	**31.9**	**15.6**	**10.6**	**21.1**	**37.4**	**31.7**	**26.7**	**32.4**	**25.2**	**30.2**	**25.2**	**31.3**	**325.7**
Disbursements - Operating														
Raw Material and Freight Costs	(5.1)	(8.3)	(8.3)	(8.3)	(7.7)	(18.0)	(12.9)	(12.9)	(12.9)	(8.9)	(8.9)	(8.9)	(10.6)	**(131.4)**
Production and Operating Costs	(6.9)	(9.4)	(7.8)	(8.1)	(5.6)	(13.1)	(8.7)	(21.3)	(8.7)	(8.2)	(9.5)	(20.4)	(8.8)	**(136.7)**
Employee Costs	(2.7)	(2.5)	(5.4)	(2.6)	(2.3)	(4.8)	(5.5)	(2.1)	(5.7)	(2.1)	(5.1)	(3.0)	(8.3)	**(52.1)**
Property Tax/Insurance/Other Taxes	(0.0)	(0.2)	(0.1)	(0.1)	(0.1)	(0.0)	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	**(0.5)**
Total Disbursements - Operating	**(14.8)**	**(20.3)**	**(21.5)**	**(19.0)**	**(15.8)**	**(36.0)**	**(27.1)**	**(36.3)**	**(27.2)**	**(19.2)**	**(23.5)**	**(32.3)**	**(27.7)**	**(320.7)**
Net Operating Cash Flows	**(8.4)**	**11.6**	**(5.9)**	**(8.4)**	**5.3**	**1.4**	**4.6**	**(9.6)**	**5.2**	**6.0**	**6.7**	**(7.1)**	**3.6**	**5.0**
Disbursements - Non-Operating														
Restructuring Professional Fees	0.0	0.0	(0.7)	0.0	(0.7)	0.0	(0.7)	0.0	(0.7)	0.0	(0.7)	0.0	(0.7)	**(4.2)**
CCAA Restructuring Costs	(5.8)	(5.8)	(5.8)	(5.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**(23.0)**
DIP Interest & Loan Fees	(0.0)	(0.1)	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	0.0	0.0	0.0	**(0.7)**
Other Interest Income (Expenses)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Total Disbursements - Non-Operating	**(5.8)**	**(5.8)**	**(6.5)**	**(5.8)**	**(0.7)**	**(0.1)**	**(0.7)**	**(0.1)**	**(0.7)**	**(0.3)**	**(0.7)**	**0.0**	**(0.7)**	**(27.9)**
Net Receipts (Disbursements)	**(14.2)**	**5.8**	**(12.4)**	**(14.2)**	**4.6**	**1.3**	**3.9**	**(9.6)**	**4.4**	**5.7**	**6.0**	**(7.1)**	**2.9**	**(22.9)**
Book Cash Balance														
Beginning Cash Balance	33.2	12.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	
Net Receipts (Disbursements)	(14.2)	5.8	(12.4)	(14.2)	4.6	1.3	3.9	(9.6)	4.4	5.7	6.0	(7.1)	2.9	
Net Loan Borrowing (Repayment) in the Period	(6.4)	(13.4)	12.4	14.2	(4.6)	(1.3)	(3.9)	9.6	(4.4)	(5.7)	(6.0)	7.1	(2.9)	
Ending Book Cash Balance	**12.6**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	
ABL Revolving Loan														
ABL Loan Balance at Beginning of Period	81.0	74.6	42.7	27.1	16.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
ABL Borrowing (Repayment) in the Period	(6.4)	(31.9)	(15.6)	(10.6)	(16.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
ABL Loan Balance at End of Period	**74.6**	**42.7**	**27.1**	**16.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	
DIP Revolving Loan														
DIP Loan Balance at Beginning of Period	0.0	0.0	18.5	46.5	71.3	83.2	81.8	78.0	87.6	83.2	77.4	71.4	78.6	
DIP Borrowing (Repayment) in the Period	0.0	18.5	28.0	24.8	11.9	(1.3)	(3.9)	9.6	(4.4)	(5.7)	(6.0)	7.1	(2.9)	
DIP Loan Balance at End of Period	**0.0**	**18.5**	**46.5**	**71.3**	**83.2**	**81.8**	**78.0**	**87.6**	**83.2**	**77.4**	**71.4**	**78.6**	**75.7**	

Catalyst Paper Corporation et al.

CCAA Cash Flow Forecast

For the Period January 31, 2012 to April 30, 2012

In CAD$ millions

Notes

1. The purpose of this cash flow forecast is to determine the liquidity requirements for the Company during the initial stage of the CCAA proceedings.

2. The cash flow forecast is presented on a consolidated basis for the following legal entities:

    Catalyst Paper Corporation, 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

    The Cash Flow Forecast excludes Powell River Energy Inc. ("PREI"). The Company has a 50.001% interest in PREI and consolidates 100% of PREI in its financial statements as PREI is a Variable Interest Entity; however, PREI is not a part of these proceedings and is not forecasted to require DIP funds to sustain its operations.

3. Production at mills based on current operational production schedule.

4. An exchange rate of CAD$/USD$0.98 is used.

5. The cash flow forecast is based on the assumptions that the Company will continue operations in the normal course, except where otherwise stated in these assumptions.

Catalyst Paper Corporation et al.

CCAA Cash Flow Forecast

For the Period January 31, 2012 to April 30, 2012

In CAD$ millions

6. Collection of Trade Accounts Receivable is shown net of outstanding customer rebates. The timing of the receipt of collections is based on historical collection rates adjusted for anticipated delays as a result of the CCAA filing.

7. The Collection of Other Accounts Receivable primarily relates to HST/GST Receivable, Snowflake surplus power and Apache outbound freight receipts and receipts from the sale of fibre.

8. Raw material costs represent materials that are required for production such as fibre, chemicals, furnish. Amount also includes inbound and outbound freight for raw material purchases, as well as, inventory sales. Raw materials disbursements have been forecasted based on anticipated production levels, costs and consumption rates.

9. Production costs primarily represent supplies, maintenance, materials and services, capital additions and utilities. Production costs are based on anticipated production levels. CAPEX of $7.6 MM is forecasted during the period and is included in Production & Operating Costs.

   All Snowflake disbursements, including raw materials and employee costs, are included in Production and Operating Costs.

10. Employee Costs represents salaries, wages, vacation, benefits, current pension service obligations and other post-employee benefits (excluding Snowflake as noted above). Hourly payroll, salary costs and benefits are based on forecasted operating levels. All employee costs paid in the normal course of operations.

11. Restructuring Professional Fees reflect anticipated legal counsel, monitor and advisor fees.

Catalyst Paper Corporation et al.

CCAA Cash Flow Forecast

For the Period January 31, 2012 to April 30, 2012

In CAD$ millions

12. CCAA Restructuring Costs relate primarily to amounts potentially payable to key suppliers for the pre-filing arrears or deposits to ensure continued supply post-filing.

13. Based on the credit arrangements for DIP financing.

14. No interest or principal payments are made to bondholders

15. Repayment of the ABL Loan is facilitated through weekly net cash receipts plus limited draws from the DIP Loan.

16. DIP Loan Borrowings represents advance of funds pursuant to DIP financing as anticipated to be approved by the Court.

This forecast is based on currently available information and estimates which may or may not prove to be correct. All forecasts involve risks, variables, and uncertainties. The Company's actual results may differ from the forecast. Consequently, no guarantee is presented or implied as to the accuracy of the forecast.