



15 May 2012

To: The Creditors of Catalyst Paper Corporation, and those companies listed in Schedule "A" (collectively, "**Catalyst**" or the "**Company**").

The Company and the Initial Supporting Noteholders have agreed to amend the Company's Plan of Arrangement dated March 15, 2012 (the "**Plan**"), which was filed pursuant to the *Companies' Creditors Arrangement Act* (the "**CCAA**"). The amended Plan described below is referred to in this notice as the "**Amended Plan**". The purpose of this letter is to summarize the changes made in the Amended Plan and outline certain implications of the Amended Plan for creditors.

Both the Amended Plan and the Monitor's 15th Report to the Court commenting on the fairness and reasonableness of the Amended Plan are available on the Monitor's website at: www.pwc.com/car-catalystpaper. The Monitor has recommended that creditors vote in favour of the Amended Plan. The Monitor also recommends that creditors read the Monitor's 15th Report to review the Monitor's comments on the Amended Plan.

Summary of Amendments to the Plan

Following is a summary of the amendments to the Plan. In the event that there is any inconsistency between the terms of the Amended Plan and the summary of the amendments set forth below, the Amended Plan will govern. All capitalized terms used but not defined in this notice shall have the meanings ascribed to them in the Amended Plan or the Plan, as applicable.

Under the Amended Plan:

- (a) The aggregate principal amount of the New First Lien Notes has been reduced from US\$325 million to US\$250 million, with 11% interest due semi-annually in arrears in cash or 7.5% payable semi-annually in cash *plus* 5.5% payable semi-annually in kind.
- (b) No New First Lien Coupon Notes or Warrants will be issued.
- (c) Catalyst will use commercially reasonable efforts to sell all of its right, title and interest in and to Powell River Energy Inc. and the Powell River Energy Limited Partnership, together with certain associated indebtedness (collectively, "**PREI**"), and 50% of the net proceeds thereof (the "**PREI Proceeds Pool**") will be paid to the Monitor for distribution to the Unsecured Creditors. Unsecured Creditors will each receive a *pro rata* share of the PREI Proceeds Pool, subject to the ability of Unsecured Creditors to make an Equity Election (see below).

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- (d) The New Common Shares of the Company to be distributed to the First Lien Noteholders has been increased from 80% to 100% (subject to dilution resulting from, among other things, the distribution of equity to Unsecured Creditors).
- (e) If the Amended Plan is approved by the Court, Unsecured Creditors (other than Cash Election Creditors) will be given the option of making an election (an “**Equity Election**”) to receive their distribution under the Amended Plan by way of a *pro rata* share (based on the total Unsecured Claims) of 4% of the equity in the Company instead of their share of the PREI Proceeds Pool.
- (f) The provisions of the original Plan remain in respect of Convenience Creditors (holders of General Unsecured Claims of up to C\$10,000) and Cash Election Creditors (holders of General Unsecured Claims greater than C\$10,000, who elect to value their claim at C\$10,000 for distribution purposes). These creditors will receive up to 50% of their Allowed Claim for distribution purposes, subject to a maximum distribution of C\$2.5 million to all such creditors.

General Unsecured Creditors who are not Convenience Creditors may still make a Cash Election if they wish. Creditors who previously made a Cash Election and wish to maintain that election under the Amended Plan do not have to take any action.

Creditors who wish to revoke a previous Cash Election in order to share in the distribution of the PREI Proceeds Pool (or make an Equity Election) must endorse and return the enclosed Cash Election Revocation Form to the Monitor by no later than 5:00 p.m. (prevailing Vancouver time) on May 22, 2012.

Under the Amended Plan, all Convenience Share Elections previously made by Convenience Creditors have been cancelled, and those creditors are no longer deemed to have voted in favour of the Amended Plan. The Monitor will be contacting those creditors to solicit their votes on the Amended Plan.

All Unsecured Creditors other than Cash Election Creditors will be entitled to make an Equity Election. After Plan approval, an Equity Election Package will be sent to Unsecured Creditors (other than Cash Election Creditors), who may elect to receive their pro rata share of 4% of the New Common Shares by delivering an executed Equity Election Form to the Monitor.



Rescheduling of Meetings

The date and location of the Meetings have been changed to:

Wednesday, May 23, 2012

**Westin Wall Centre, Vancouver Airport Hotel
3099 Corvette Way
Richmond, BC**

**Meeting of Unsecured Creditors – 10:00 a.m.
Meeting of First Lien Noteholders – 11:00 a.m.**

The process for voting on the Amended Plan remains unchanged, though given the change in the Meeting Date:

- (a) Noteholders' proxies must be delivered to Globic Advisors by 4:00 p.m. (prevailing New York City time) on May 22, 2012; and
- (b) General Unsecured Creditors may deliver their proxies to the Monitor up to the commencement of the Unsecured Creditors Meeting at 10:00 a.m. (prevailing Vancouver time) on May 23, 2012, or may vote in person at the meeting.

Creditors who have previously submitted proxies to vote at the respective Creditors Meeting do not need to resubmit their proxy, unless they wish to change their voting instructions.

Thank you for your attention to the foregoing. If you have any questions, please contact our hotline at +1 604 806 7070 or email us at catalystclaims@ca.pwc.com.

Yours truly,

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

A handwritten signature in black ink, appearing to read "Mica Arlette".

Mica Arlette, CA, CIRP
Senior Vice President