

Five Year Chart: Catalyst Paper Jan 2001 to Jan 2006



One Year Previous

June 2000: NorskeSkog ASA buys Fletcher Challenge Paper Division

Financial Positions June 2000

Fletcher Challenge — Net earnings \$99 M	Debt \$0	Cash \$789M
NorskeSkog Canada—Net earnings \$163M	Debt \$0	Cash \$930M

August to October 2001

‘Cash Liberation’ \$1.49 Billion ‘largest cash payment of it’s kind in Canada’

Purchase Pacifica Paper \$1.0 Billion

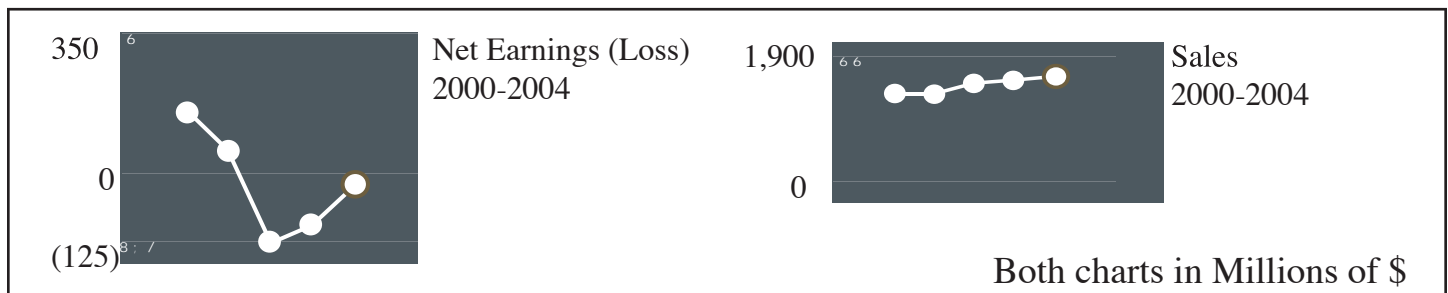
New Debt \$1.17 Billion

- 400 Jobs Lost
 - 280—Closure Powell River Kraft Mill
 - 120—Port Alberni and Corporate positions
- Norske pledges \$3million to diversify the economic base of Powell River
 ‘a community that had historically become overly-dependent on the mill’

NorskeCan/Catalyst	2001	2002	2003	2004	2005
Debt	\$1.2B	\$886M	\$846M	\$824M	\$862M
Net Earnings (Loss)	+\$45M	-\$122M	-\$85M	-\$29M	-\$26M

June 4, 2003 Norske Mill Manager at Powell River Stakeholders Meeting:

“The mill is not making money on a cash basis and we are eating into our credit line... We can only borrow money for so long before the banks say ‘sorry, no more’. If we don’t change, we have about two and a half years left on our line of credit.”



October 2005 Name Change

Vancouver, B.C. —NorskeCanada changed its name to Catalyst Paper Corporation following a shareholder meeting today. The company will begin using the new name immediately and on October 6, it will trade under a new ticker symbol, CTL, on the Toronto Stock Exchange.

Dec 2005 Moody’s downgrades Catalyst Paper ratings

San Francisco (Marketwatch) —The outlook remains negative for Canada’s Catalyst... as a consequence of modest free-cash-flow generation, indicating there is a risk of debt increasing rather than decreasing, Moody’s said.

Dec 2005 Standard & Poor’s lowers Catalyst credit rating

Ontario—“The company does not earn its cost of capital and Catalyst is not expected to materially improve earnings in the short term, despite higher prices for newsprint and uncoated groundwood,” said Standard & Poor’s credit analyst Daniel Parker. Given the company’s weak earnings power, the approximate C\$900 million of adjusted total debt is aggressive for the previous rating.

Dec 16, 2005 Catalyst deleted from Standard & Poor’s/TSX Composite Index

Bloomberg—“Leaving the benchmark index may mean the shares are less frequently traded, and that investors may shift their investments into other stocks.

Jan 26, 2006 Annual Financial Report 2005

Jan 30, 2006 Norske Skog sells stake in Catalyst Paper for \$192 million

Catalyst Paper Corporation announced today that Norske Skog has entered into an agreement with UBS Securities Canada for an underwritten secondary offering. Following the offering, Norske Skog will no longer own any shares of Catalyst.

What Happened?

To figure out what happened in the fall of 2001 which led to the precipitous fall in the value of their stock shown above, I downloaded all the financial reports available on the Catalyst web site (<http://www.catalystpaper.com>) and began reading. The highlights of what I gleaned from these documents are contained on the previous two pages and discussed here as well.

1999 Fletcher Challenge Annual Report

Fletcher Challenge globalized their operations.

This meant they no long needed their BC pulp and paper mills in Macenzie, Crofton and Elk Falls (Campbell River).

2000 NorskeCanada Annual Report

June 2000: NorskeSkog ASA buys Fletcher Challenge Paper Division

Financial Positions June 2000

Fletcher Challenge — Net earnings \$99 M	Debt \$0	Cash \$789M
NorskeSkog Canada—Net earnings \$163M	Debt \$0	Cash \$930M

These two companies were in great financial shape! They made money, had NO DEBT and had \$1.7 Billion in cash between them.

2001 NorskeCanada Annual Report

A very different picture presented itself in 2001.

Norske bought Pacifica Papers adding the Powell River and Port Alberni mills to their portfolio.

According to CEO Russell Horner on the third page of the President's Message portion of the Annual Report :

“To facilitate the acquisition [of Pacifica], the company re-capitalized its balance sheet. The large cash balance which had lain dormant for a number of years, was finally released and returned in large measure to the shareholders. A special dividend . . . resulted in an overall \$12 per share distribution to shareholders and was by all accounts the largest cash payment of its kind in Canada. . . While the company's debt position has dramatically shifted as result of the cash distribution and acquisition of Pacifica, its overall balance sheet is now more properly leveraged . . .”

On the first page to this section, he characterized the cash payout to shareholders as follows:

“Our objectives were clear—liberate the cash that had been stagnant on the company's balance sheet . . .”

Events of August to October 2001

‘Cash Liberation’	\$1.49 Billion
Purchase Pacifica Paper	\$1.0 Billion
New Debt	\$1.17 Billion

Sold the Mackenzie Mill and closed the kraft mill in Powell River

- 400 Jobs Lost 280—Closure Powell River Kraft Mill
 120—Port Alberni and Corporate positions
- Norske pledges \$3 million

“ . . .to diversify the economic base of Powell River, a community that had historically become overly-dependent on the mill” (Annual Report 2001, President's Message, 5th page).

This then was the germination point of the Joint Venture plans to diversify the economic base (taxes and jobs) in Powell River. Four and one half years later the JV is still not signed. No “diversification” has taken place.

2001 Through 2005 Norske Debt and Earnings

Taken from each year's annual report, these figures tell the true story of Catalyst's financial well being.

	2001	2002	2003	2004	2005
Debt	\$1.2B	\$886M	\$846M	\$824M	\$862M
Net Earnings (Loss)	+\$45M	-\$122M	-\$85M	-\$29M	-\$26M

Catalyst has been carrying well over \$800 million dollars a year in debt for the last 5 years. Servicing this debt is a huge financial burden. The service of this debt at interest rates of 5% (and they are paying much more on some of it —7% to 8% on some senior notes!) would be \$41 million in 2005. You can see, they would have shown a profit of \$15 million last year, if they had not been servicing this debt.

While it is true they are “losing less” each year, it's still a deep hole to dig a company out of. And time may be running out, as we shall see.

Remember, above all else, the cash distribution was a business decision which the company chose to make. You will better understand the full important of the following comments and events in light of the above facts.

Dec 9, 2002 Norske Welcomes Tax Cuts

Powell River Peak: Chief executive officer calls municipal plan ‘an excellent step’ which took ‘a lot of nerve’. Russell Horner, president and CEO of NorskeCanada, welcomed the tax reduction brought in by municipal council on December 9 . . .

June 4, 2003 Norske Mill Manager at Powell River Stakeholders Meeting:

“The mill is not making money on a cash basis and we are eating into our credit line... We can only borrow money for so long before the banks say ‘sorry, no more’. If we don't change, we have about two and a half years left on our line of credit.”

Two and a half years later

October 6, 2005 Name Change

Vancouver, B.C. —NorskeCanada changed its name to Catalyst Paper Corporation following a shareholder meeting today. The company will begin using the new name immediately and on October 6, it will trade under a new ticker symbol, CTL, on the Toronto Stock Exchange.[This is the beginning of NorskeSkog removing itself from the company altogether.]

Dec 8, 2005 Moody's downgrades Catalyst Paper ratings

San Francisco (Marketwatch) —The outlook remains negative for Canada's Catalyst...as a consequence of modest free-cash-flow generation, indicating there is a risk of debt increasing rather than decreasing, Moody's said.

Dec 9, 2005 Standard & Poor's lowers Catalyst credit rating

Ontario—“The company does not earn its cost of capital and Catalyst is not expected to materially improve earnings in the short term, despite higher prices for newsprint and uncoated groundwood,” said Standard & Poor's credit analyst Daniel Parker. Given the company's weak earnings power, the approximate C\$900 million of adjusted total debt is aggressive for the previous rating. (DBRS also downgraded the ratings. See 2005 Annual Report)

Dec 16, 2005 Catalyst deleted from Standard & Poor's/TSX Composite Index

Bloomberg—“Leaving the benchmark index may mean the shares are less frequently traded, and that investors may shift their investments into other stocks.

Jan 26, 2006 Annual Financial Report 2005

Catalyst debt increases by \$38 million on a net loss of \$26 million.

Jan 30, 2006 Norske Skog sells stake in Catalyst Paper for \$192 million

Catalyst Paper Corporation announced today that Norske Skog has entered into an agreement with UBS Securities Canada for an underwritten secondary offering. Following the offering, Norske Skog will no longer own any shares of Catalyst.

We do not know what this ultimately means for the mill, but it is NOT good news. The Norske Skog offering deadline in Feb 16, 2006, so we won't likely hear anything until then.