



April 20, 2006

Paper & Forest Products

Sector Weighting:
Underweight

World Newsprint Market

Winners & Losers

- With respect to historical financial performance, Holmen has generated the best ROCE and stock market returns, while Catalyst has generated the worst. Norske Skog - the largest - has generated roughly the same EBITDA margin as Holmen, but its ROCE and share returns are much lower.
- Although current prices are above normalized levels, publishers are arguably the biggest winners in the longer term due to the secular decline in newsprint prices. Other winners are owners of recovered paper (everywhere) and virgin fiber in Asia.
- The biggest losers are likely shareholders (everywhere), since the ROCE has consistently been below the cost of capital. Other losers are labor - everywhere in the global industry, except in the new mills being constructed - and consumers of recovered paper.
- With respect to the producers, the biggest winners are those with modern mills in the U.S. (and maybe China). It would include those in British Columbia if it were not for the strong C\$. The biggest losers are those in E. Canada, W. Europe, and the older mills in Asia.

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, or at the end of each section hereof, where applicable.

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On April 24, we will be making a presentation entitled, "World Newsprint Market: Winners & Losers" at a conference in Shanghai, China. The conference is co-sponsored by the China Paper Association and RISI. A copy of the presentation is available upon request. The key highlights are summarized below.

There is a range of criteria that can be used to assess "winners" and "losers" in the global newsprint market.

With respect to historical financial performance:

- Holmen (HOLMBQ-L) has generated the best ROCE and stock market returns, while Catalyst (CTL-TSX, Sector Underperformer) has generated the worst. Norske Skog (NSG-OL) – the largest newsprint producer in the world – has generated roughly the same average EBITDA margin as Holmen, but its ROCE is roughly 1/2 and its share price performance much lower.

With respect to regional demand:

- Since 2000, Chinese demand has increased by 75%, while North American demand has declined by 21%. Global demand has been essentially flat over the past five years.
- Since 1990, the rise in demand in China (+2.4 million tonnes) has almost equaled the decline in the United States (-2.9 million tonnes).
- On a secular basis going forward, we expect the annual global demand for newsprint to grow at 1%; reflecting -0.5% in N. America and 2.0% in the rest of the world.

With respect to regional capacity:

- Since 2000, Chinese capacity essentially doubled (+97%), while North American capacity fell by 18%. Global capacity remained essentially flat over this period.
- Looking forward, we expect Chinese capacity to rise by 23% in 2006 and 17% in 2007. On the other hand, we expect capacity in N. America to contract by at least a further 4.9% in 2006 and 1.1% in 2007 (however, the contraction in N. America could be as high as 5% next year). We expect global capacity to rise by 0.6% in 2006 and 1.4% in 2007.
- By mid-2007, 5 of the 15 largest newsprint machines in the world will be in China, 9 will be in Europe, and 1 will be in N. America.

With respect to capturing the benefits of trade:

- Canada continues to be by far the largest net exporter of newsprint (with over 70% going to the United States) - Russia is a distant second.
- The United States is by far the biggest net importer, but India is now the second largest.
- Due to anti-dumping duties ranging from 9%-78% and increasing domestic capacity, China trades very little in the international newsprint market. However, if Chinese demand were to slow, we expect China would become a net exporter of newsprint.

With respect to relative costs:

- Exchange rates have the biggest impact on the global cost curve for newsprint, with the Canadian dollar appreciating the most and the Russian ruble depreciating the most. At present, the Chinese, Russian and Brazilian currencies are arguably the most undervalued, while the euro and Canadian dollar are the most overvalued.
- Fiber accounts for about 25% of total variable costs. On a secular basis, we expect virgin softwood fiber prices to decline, and recovered paper (e.g., ONP/OMG) prices to increase. This is generally most favourable for the Canadian, Scandinavian and Russian mills, and least favourable for the Asian mills.
- Energy accounts for about 20% of total variable costs. Producers in British Columbia, Quebec and Russia face the lowest energy prices, while those in Asia and Scandinavia face the highest.

With respect to the "broader industry":

- Although current prices are above normalized levels, publishers are arguably the biggest winners in the longer term due to the secular decline in newsprint prices.
- Other winners are owners of recovered paper (everywhere) and virgin fiber in Asia.
- In terms of the producers, the biggest winners are likely those with modern mills in the U.S. and possibly China. Due to low fiber and electricity prices, producers in B.C. would be among the biggest winners if it were not for the strong Canadian dollar.
- The biggest losers are likely shareholders (everywhere), since the ROCE has consistently been below the cost of capital.
- With respect to the producers, the biggest losers are in Eastern Canada, Western Europe, and those in Asia with older facilities.
- Other losers are labor - everywhere in the global industry, except in the new mills being constructed - and consumers of recovered paper.

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Catalyst Paper Corporation (2a, 2e) (CTL-TSX, C\$3.33, Sector Underperformer)

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Stock Prices as of 04/20/2006:

Holmen AB (HOLMBQ-L, p1869.00, Not Rated)

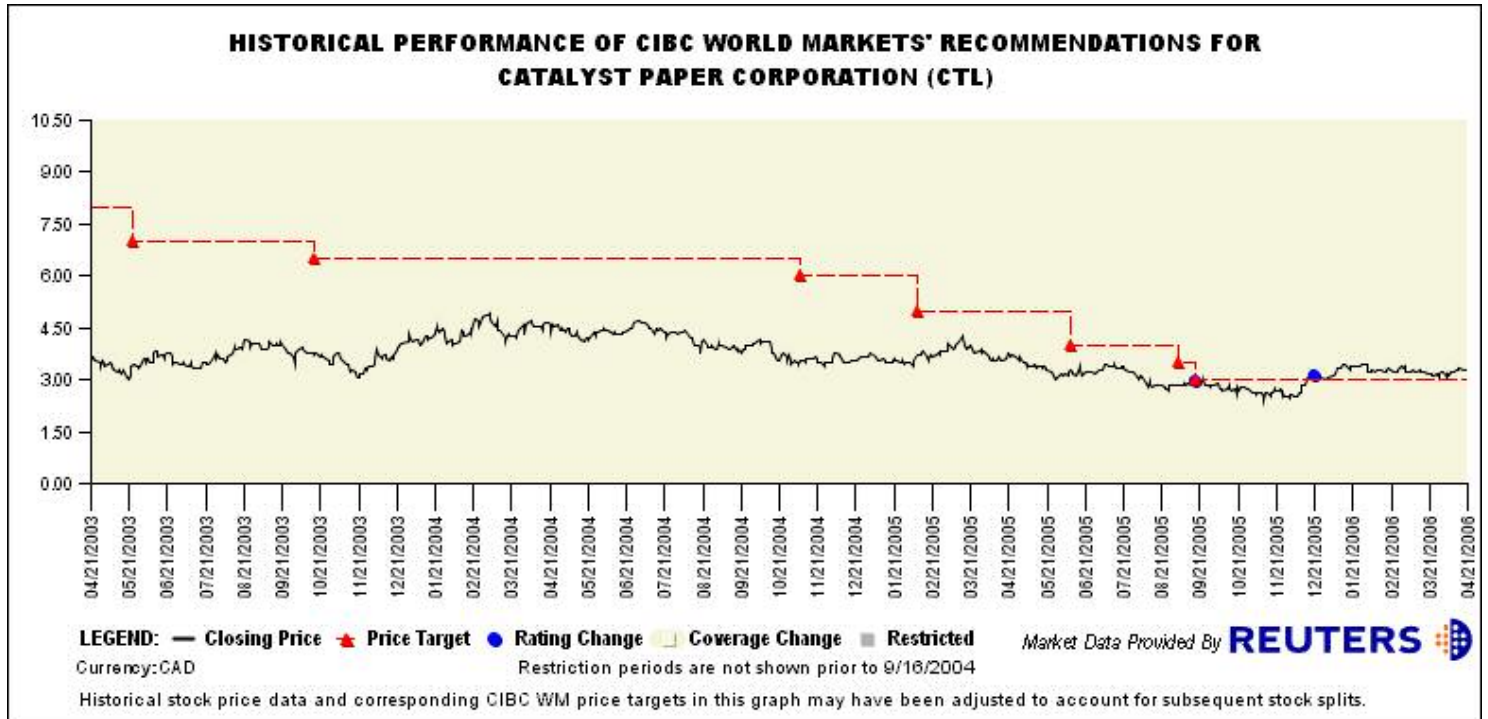
Norske Skogindustrier ASA (NSG-OL, [NOK]110.00, Not Rated)

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CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR CATALYST PAPER CORPORATION (CTL)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
05/23/2003	▲	3.40	SO	7.00	Don Roberts
10/15/2003	▲	3.72	SO	6.50	Don Roberts
11/04/2004	▲	3.44	SO	6.00	Don Roberts
02/06/2005	▲	3.53	SO	5.00	Don Roberts
06/07/2005	▲	3.24	SO	4.00	Don Roberts
09/01/2005	▲	2.83	SO	3.50	Don Roberts
09/14/2005	▲ ●	2.94	SP	3.00	Don Roberts
12/19/2005	●	3.09	SU	3.00	Don Roberts

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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***Restricted due to a potential conflict of interest.

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(as of 20 Apr 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	303	37.4%	Sector Outperformer (Buy)	159	52.5%
Sector Performer (Hold/Neutral)	381	47.0%	Sector Performer (Hold/Neutral)	175	45.9%
Sector Underperformer (Sell)	96	11.8%	Sector Underperformer (Sell)	51	53.1%
Restricted	21	2.6%	Restricted	21	100.0%

Ratings Distribution: Paper & Forest Products Coverage Universe

(as of 20 Apr 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	28.6%	Sector Outperformer (Buy)	3	75.0%
Sector Performer (Hold/Neutral)	6	42.9%	Sector Performer (Hold/Neutral)	3	50.0%
Sector Underperformer (Sell)	4	28.6%	Sector Underperformer (Sell)	4	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Paper & Forest Products Sector includes the following tickers: A, BOW, CAS, CFP, CTL, DTC, FPS, IFP.SV.A, IP, LPX, NBD, TBC, WFT, WY.

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