CATALYST PAPER | 2011 | SUSTAINABILITY REPORT

MOVING FORWARD...

Catalyst

OUR COMPANY

CATALYST PAPER MANUFACTURES DIVERSE SPECIALTY PRINTING PAPERS, NEWSPRINT AND PULP.
Our customers include retailers, publishers and commercial printers in North America, Latin America, the Pacific Rim and Europe. With three mills in British Columbia and one in Arizona, Catalyst has a combined annual production capacity of 1.8 million tonnes. Company headquarters are in Richmond, British Columbia, Canada and Catalyst shares traded on the Toronto Stock Exchange (CTL) until the company's filing for creditor protection on January 31, 2012.

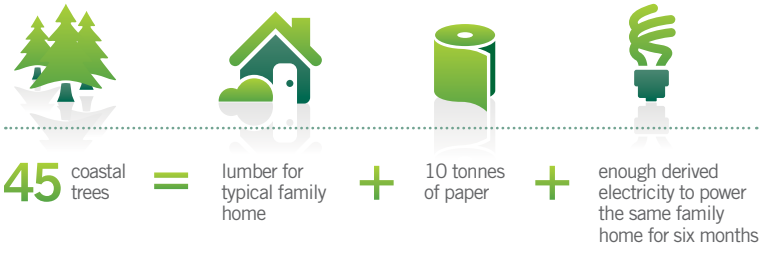
In 2011, Catalyst was:

- Named one of the 50 Best Corporate Citizens in Canada by Corporate Knights magazine
- Named one of the 50 Most Socially Responsible Corporations in Canada by Jantzi-Sustainalytics and Maclean's magazine
- Received an Excellence in Corporate Responsibility Award from Green Living Enterprises
- Earned a spot as the top-ranked forest products company in the Canadian Institute of Chartered Accountants Corporate Reporting Awards

…TOWARDS IMPROVED SAFETY AND A SOUNDER FINANCIAL FOOTING.

Those were our key focal points during 2011, another extraordinarily challenging year across our industry. We also continued to act on and advance our commitments to efficient resource use and low-impact manufacturing, and remained a major driver of local economies in the regions where we operate.

Making the most of resources.



For more insight on our approach to sustainability, see also www.catalystpaper.com/sustainability W

OUR REPORT

BUILDING FROM AN EARLIER MATERIALITY ANALYSIS, WE HAVE EXPANDED OUR DISCLOSURE AND REFINED OUR DISCUSSION OF KEY ISSUES IN THIS, CATALYST'S NINTH SUSTAINABILITY REPORT. We have focused on content where significant stakeholder interest and business implications coincide. Content selection is informed by stakeholder engagement (see page 8) and monitoring of sustainability-related trends and reporting best practices.

This report covers the period January 1 to December 31, 2011 and relates to all of Catalyst's wholly owned operations and worldwide sales. Dollar amounts are in Canadian currency unless otherwise noted. Performance for our Snowflake mill begins from its acquisition date (April 10, 2008) unless otherwise noted. Where relevant, segmented results for Canadian operations are included. There were no significant changes in reporting scope or metrics, or in Catalyst's size, structure or ownership, during the reporting period. Subsequently, the company received an order in the Supreme Court of British Columbia granting creditor protection under the Companies' Creditors Arrangement Act on January 31, 2012. The order is recognized in the United States under chapter 15, title 11 of the U.S. bankruptcy code and enables Catalyst Paper to proceed with an orderly debt restructuring process.

This report serves as our Communication on Progress as a signatory to the United Nations Global Compact, our continued support for which we affirm. It complements the mandatory disclosure provided in our annual financial report, and other information available at **www.catalystpaper.com**. We self-declare this collective process to Global Reporting Initiative Application Level C (see index, page 42).

Feedback on this report is welcome and can be sent to barb.kelso@catalystpaper.com @

KEY FACTS AND FIGURES

	2011	2010	2009
SOCIAL			
Lost-time incident frequency [1]	1.61	2.71	2.06
Medical incident frequency [1]	4.03	5.09	4.23
Employee population [2]	1,877	1,803	1,851
Payroll ($ millions) [3]	178	175	195
Charitable donations ($ thousands)	90	52	74
ECONOMIC ($ millions, unless otherwise noted)			
Total taxes paid [4]	23	28	38
Total sales	1,261.5	1,228.6	1,223.5
Net earnings (loss) attributable to company	(974.0) [5]	(396.9)	(4.4)
Market capitalization	13	90	76
EBITDA (before specific items)	47.5	71.6	141.1
EBITDA (before specific items) as % of sales	3.8	5.8	11.5
INPUTS			
Water (m^3)	127,361,988	124,277,821	107,368,422
Fuel energy [6]	36,823,417	34,195,858	25,519,856
Electrical energy [7]	3,932,563	3,895,426	3,814,740
Wood chips, pulp logs, old newspapers (tonnes)	1,986,642	1,844,753	1,551,546
OUTPUTS (tonnes, unless otherwise noted)			
Greenhouse gas emissions (carbon dioxide equivalency – CO_2e)	1,069,615	1,102,574	908,505
Total reduced sulphur (TRS) emissions [8]	91	61	17
Particulate emissions [8]	506	607	366
Biochemical oxygen demand (BOD)	990	644	574
Total suspended solids (TSS)	3,347	2,942	1,987
Solid waste to landfill (m^3)	161,102	148,255	134,536

Increased volumes of inputs and most outputs shown above are partly due to an increase in production in 2011 (see page 37). This is true particularly of the increase in TRS emissions, which are tied to pulp production at Crofton. Higher production volumes minimized intensity-based increases (per tonne of production). Factors relating to increases in TRS, BOD and TSS outputs – at those operations where 2011 performance was outside the range of normal variation – are found in the footnotes on pages 33 and 35.

1 Incidents per 200,000 hours worked; 2010 figures updated to reflect post year-end adjustments based on injury progression/duration.

2 Active employees at year-end, excluding vacancies.

3 Includes all salaries and wages paid, excluding benefits and severance.

4 See details regarding property taxes, page 17.

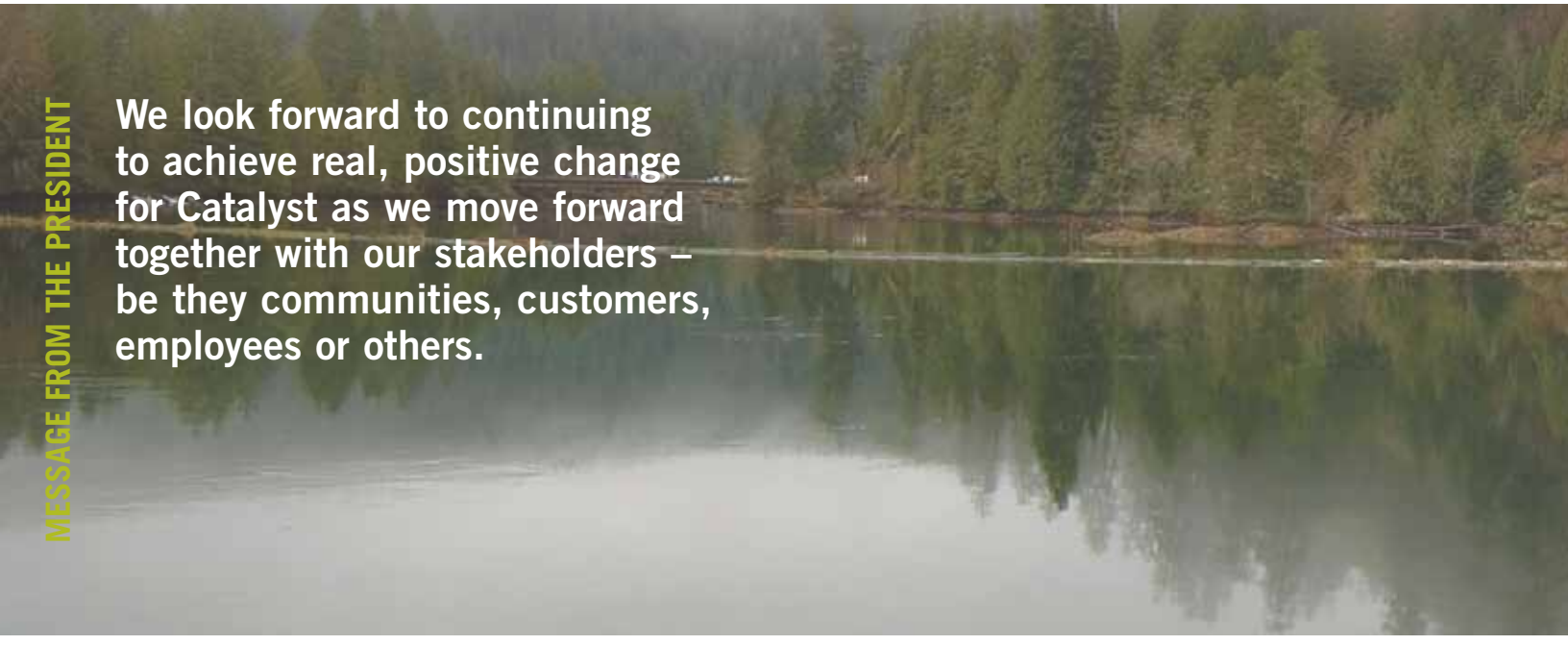
5 Reflected impairment charges totalling $161.8 million on Snowflake and $660.2 million on Canadian operations.

6 Gigajoules (GJ) – includes fossil fuels and renewables.

7 Megawatt-hours (MWh) – includes purchased and self-generated; 2010 figure updated to reflect a calculation adjustment.

8 Based on actual test results; National Pollutant Release Inventory (NPRI) data may differ because it uses emission factors and includes other sources, see page 38.

...TO SECURE A STRONGER FUTURE



We look forward to continuing to achieve real, positive change for Catalyst as we move forward together with our stakeholders – be they communities, customers, employees or others.

KEVIN J. CLARKE
President and Chief Executive Officer

This report was prepared at an extraordinary time in Catalyst Paper's history. Our restructuring process initiated in late 2011 cast the financial priorities of our business into sharp relief for all stakeholders. It is vitally important to our corporate sustainability that we address three immediate requirements – reduce debt, improve liquidity and achieve more competitive operating costs going forward.

While our restructuring process is continuing to unfold subsequent to finalizing this report, we believe it represents an orderly path towards a more certain future for our company and thousands of stakeholders who rely in some way on our operations.

And I believe it's of some significance that we are continuing to produce this sustainability report as a complementary document to our annual financial report. Operating under creditor protection since January 31, 2012 means this report is being produced during a time of greater complexity, uncertainty and demand on subject matter experts in our business. My thanks to the team who came together and made this report a priority among so many others. It is evidence of the collective awareness and commitment of our nearly 1,900 employees to account for and report on performance in a way that truly addresses the expectations of our diverse community of stakeholders.

This report documents how we performed in that regard in 2011, and signals some of our priorities and objectives as we work to emerge from creditor protection on sounder financial footing and with a more adaptable culture and more competitive operation going forward. Through this all, our decisions will continue to be guided by our Operating Philosophy, which was introduced nearly two years ago. Examples of what it looks like in action, and of the benefits it can create, are increasingly common throughout Catalyst operations, and are reflected in this report.

The Operating Philosophy's seven elements inform our day-to-day operations. What we refer to as the "neutron microscope" is the most important element to our company – situated as we are in an industry going through dramatic transformation – and it involves sharply focusing the some 19,000 years of collective subject matter expertise found within Catalyst on the challenges we face. This played out in various ways in 2011.

Safety was certainly the focus of our microscope and although we made progress in the latter half of the year, we did not meet our safety targets in 2011 and are intensifying our effort to achieve a step-change improvement in 2012. Together with union locals at each mill, a new Safety Improvement Team led the development of practices and tools to better equip people to take personal accountability for countless small decisions that influence their safety. An awareness campaign also helped raise visibility of this crucial topic.

We expanded the frequency and variety of our employee communications in 2011 with the benefit of employee input gathered through semi-annual trust and engagement surveys. The results provided a useful reality check to ensure we're creating a fact-driven information climate and a culture of personal accountability in an atmosphere of respect, fairness, timely performance feedback and effective leadership day in and out. We also further strengthened our leadership team, in the context of a heightened focus on human resources generally.

We surveyed customers served by our Snowflake mill in 2011 and a new integrated service model is sharpening our sales and customer focus – enlisting every Catalyst employee to apply this philosophy to every job and task in our business.

And, of course, environmental stewardship remained central to our operating practices. This report details the performance at every mill with special focus on efficient resource use and production impacts that we believe to be of most interest to our stakeholders.

Milestones in 2011 included the implementation of Forest Stewardship Council chain-of-custody and controlled wood certification at our three Canadian mills. We were also a founding member of a new initiative of GreenBlue, which will extend the impact of its science-driven sustainable design expertise to the paper supply chain.

All this is consistent with our ongoing commitment to widely endorsed sustainability benchmarks, such as the principles of the United Nations Global Compact, of which we remain a signatory and supporter.

With our 2011 sustainability report, our record of sustainability disclosure now extends over a full decade. Transparency and stakeholder responsiveness have become Catalyst hallmarks – distinguishing our product pedigree and making us the preferred pulp and paper supplier to leading publishers, commercial printers and retail advertisers in key markets worldwide.

As we restructure to address the most immediate financial requirements of our corporate sustainability so, too, are we positioning Catalyst to adapt and transform our business for the future. We look forward to continuing to achieve real, positive change for Catalyst as we move forward together with our stakeholders – be they communities, customers, employees or others.

KEVIN J. CLARKE
President and Chief Executive Officer

LOOKING BACK ON...

YEAR IN REVIEW

2011

FEBRUARY

Announced Canadian federal government funding (Green Transformation Program) for energy improvement projects at Powell River and Port Alberni

Reached a competitiveness-enhancing new labour agreement with the largest of four unions at Snowflake mill

Launched "No Compromises" safety awareness campaign

MARCH

Launched new pod service delivery model for Snowflake customers

APRIL

Reported a Q1 net loss of $12.9 million

12.9
million Q1 net loss

MAY

Extended and amended existing asset-based loan facility, with new maturity date of May 31, 2016

JUNE

Earned an improved ranking (13th overall) upon fifth consecutive appearance on Corporate Knights 50 Best Corporate Citizens in Canada list

Launched review of alternatives to address capital structure

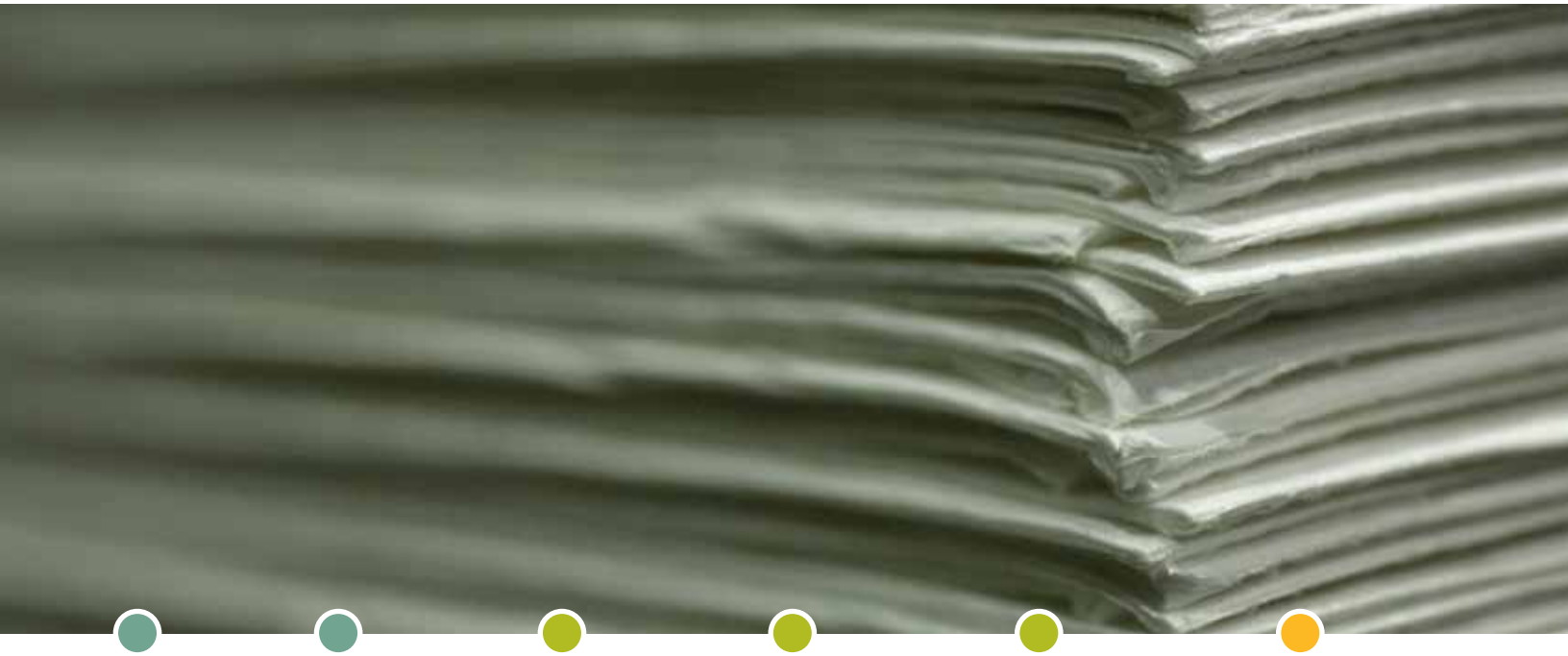
Achieved FSC controlled wood and chain-of-custody certification at all three Canadian mills

JULY

Reported Q2 net loss of $47.4 million

47.4
million Q2 net loss

Corporate Knights 50 Best list: placed 31st in 2010 and 13th in 2011



AUGUST

Conducted water-use audit at Crofton mill

SEPTEMBER

Completed replacement of a Port Alberni-area dam, in a strategic alliance with the Hupacasath First Nation

OCTOBER

Celebrated Snowflake mill's 50th anniversary

Participated as founding member in launch of GreenBlue's Forest Products Working Group

NOVEMBER

Reported Q3 net loss of $205.7 million (reflected $151.0 million impairment charge on the Snowflake mill)

Completed power boiler upgrades at Port Alberni

205.7
million Q3 net loss

DECEMBER

Announced deferral of an approximate US$21 million interest payment on outstanding notes, while continuing with capital structure review

Participated in "No Regrets" dialogue between industry and environmental groups on climate and energy policy

Started additional green energy generation at Powell River

2012 FEBRUARY

Reported a Q4 net loss of $708.0 million (reflected $660.2 million impairment charge on Canadian operations and $10.8 million on Snowflake)

708.0
million Q4 net loss

LOOKING FORWARD

"The Board, management and our advisors believe this approach will best facilitate the completion of a recapitalization transaction that delivers the improvements to our liquidity and capital structure which are necessary to put our company on firm financial and competitive footing in the current business and economic environment."

CEO KEVIN J. CLARKE COMMENTING ON CATALYST'S FILING FOR CREDITOR PROTECTION JANUARY 31, 2012

STAKEHOLDER ENGAGEMENT:

Our stakeholders include groups whose interests are impacted by our activities and/or whose activities can impact the conduct of our business.

Noteworthy aspects of our interactions with key stakeholders are summarized below.

STAKEHOLDERS	KEY FORMS OF ENGAGEMENT		
ABORIGINAL PEOPLES	1 formal engagement on initiatives of mutual interest and potential mutual benefit (see page 18)	2 ongoing information sharing and dialogue, aligned with interests and capacities of specific aboriginal groups	
CUSTOMERS	1 ongoing dialogue (sales representatives)	2 satisfaction surveys (see page 19)	3 engagement with various customer associations
EMPLOYEES + UNIONS	1 ongoing dialogue with individual employees	2 ongoing dialogue, formal engagement in safety programs, and periodic collective agreement negotiation with unions	3 range of internal communications tools and platforms, and surveys twice per year (see page 12)
GOVERNMENTS + REGULATORS	1 ongoing dialogue with elected representatives and key officials	2 engagement in specific regulatory/consultative initiatives	3 membership in various business and industry associations
INVESTORS + CREDITORS	1 quarterly financial reporting and analyst calls, news releases as required, conference participation, occasional analyst days at mills, and direct dialogue as appropriate		
NON-GOVERNMENTAL ORGANIZATIONS	1 formal partnerships with select groups (see pages 10 and 27)	2 multilateral engagement regarding Great Bear Rainforest (see page 23)	
OPERATING COMMUNITIES	1 community advisory forums at some locations	2 ongoing dialogue (senior mill staff) with representatives of local organizations and with interested citizens	
SUPPLIERS + BUSINESS PARTNERS	1 ongoing dialogue and evaluation (procurement representatives)	2 joint engagement in third-party certification and other environmental improvement programs	

GOVERNANCE AND MANAGEMENT SYSTEMS :

GOVERNANCE STRUCTURE

Catalyst has a nine-member Board, and all but one director (the chief executive officer) were independent in 2011. Directors are responsible for increasing and preserving shareholder value and fostering Catalyst's long-term success, all while considering the interests of our diverse stakeholders. The Board approves annual strategic plans, appoints senior management, reviews budgets and performance targets, and ensures disclosure requirements are met.

Four permanent committees have responsibilities for audit, environment health and safety (EHS), governance, and human resources and compensation. The EHS committee establishes principles, monitors compliance and evaluates risks in areas that are addressed through much of this report.

GOVERNANCE PERFORMANCE

Catalyst's governance practices meet or exceed the effectiveness guidelines of the Toronto Stock Exchange, and meet most applicable best-practice requirements for high-performance boards set by the Canadian Coalition for Good Governance.

Governance is continuously improved through best practices monitoring, annual evaluations and director development.

A Code of Corporate Ethics and Behaviour applies to directors, officers and employees, and compliance concerns can be reported through an anonymous phone line. Reports to the line are brought to the attention of the audit committee chair, but none were made in 2011.

Governance documentation and further information is available at www.catalystpaper.com/about/governance, while details regarding director compensation are included in our management proxy circular.

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RISK MANAGEMENT

Risk management at Catalyst includes the following key practices:

- A comprehensive inventory and analysis of major risks is maintained by management and reviewed annually by the Board's audit committee.
- Quarterly reports are provided to the Board's EHS committee, including performance against annual and mill-specific targets on various key metrics (the scope of which was expanded in 2011).
- Environmental management systems are in place at all manufacturing facilities and registered to the ISO 14001:2004 standard (complementing product quality systems registered to the ISO 9001:2008 standard).
- Consistent with ISO requirements, internal and independent surveillance audits are done annually and independent re-registration audits every three years.
- Independent audits are conducted every other year relating to regulatory compliance, with findings communicated to the Board.

WHAT WE STAND FOR

Our intention is to be the market-leading mechanical printing paper producer in North America and the Pacific Rim – a manufacturer known for competitiveness, innovation and sustainability and well-regarded by customers, investors, employees and communities as a focused, fair and results-oriented business.

GREENBLUE INITIATIVE LINKS LEADING SUPPLY CHAIN PLAYERS

07

THE SEVEN DESIRED OUTCOMES ARE:

In 2011, Catalyst became one of eight founding members of a Forest Products Working Group (FPWG) established by GreenBlue – a science-based non-profit that helps equip business to incorporate life-cycle principles into product design.

Founders consist of sustainability leaders with interests in the paper supply chain, including household names such as Avon and Staples. These founders are tasked with identifying key challenges and objectives, and developing the multi-stakeholder projects required to address them.

One focal point of particular interest to Catalyst will be improved customer and public understanding of issues relating to recycled paper production, and possible efforts to increase recovery of used paper. Availability of such paper at economically viable prices has become very constrained in western North America, due in part to strong export demand from Asia, and this is a major operational challenge for Catalyst.

Catalyst is represented on GreenBlue's board and broadly engaged in its expanding forest products program. We disclose mill-level environmental data through its Environmental Paper Assessment Tool, and direct $1 from every tonne of our environmentally preferred Sage papers sold to GreenBlue.

1 RESPONSIBLE SOURCING

2 EFFICIENT USE + CONSERVATION OF RAW MATERIALS

3 CONSERVATION OF NATURAL SYSTEMS

4 CLEAN PRODUCTION

5 COMMUNITY + HUMAN WELL-BEING

6 CREDIBLE REPORTING AND VERIFICATION

7 ACHIEVEMENT OF MARKET CRITERIA FOR PERFORMANCE + COST

WORKING WITH OUR...

EMPLOYEES + COMMUNITIES

NO COMPROMISES ON SAFETY

There was a strong focus at Catalyst in 2011 – from boardroom to mill floor – on radically improving unacceptable safety results, and safety performance was better in the second half of the year than in the first. We missed our overall annual targets by very narrow margins in some cases, but made good progress to reduce the number and frequency of both medical and lost-time incidents.

The severity measure increased sharply, although this trend is expected to reverse in 2012. Severity is a lagging indicator, and 2011 performance was impacted by several serious injuries in late 2010, as well as by increased recovery times within an aging workforce.

While the right tools and training are important, safety ultimately depends on innumerable small decisions made by employees throughout the working day. Equipping our team to make better decisions is therefore a last and potentially very effective line of defence.

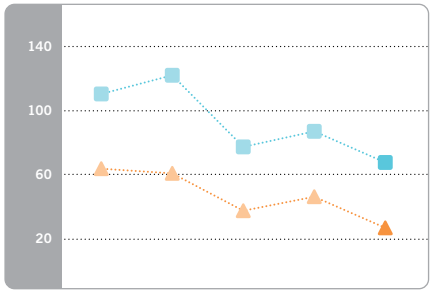
In 2011, we put a spotlight on safety through the introduction of an employee-focused "No Compromises" awareness campaign which delivered high-impact and very personal messages about the consequences of unsafe practices and the importance of taking all the steps required to be safe. The campaign relied on real messages from real people, and shared the experiences of Catalyst employees who have kept themselves safe over long periods on the job, as well as those who have experienced the impact of a serious injury.

We introduced a new Field Hazard Assessment process. Before doing any non-routine work, employees now complete and post a standard form to identify all hazards and the required control measures.

The elevated importance of safety resulted in formation of a Safety Improvement Team that includes a senior executive, all mill general managers, safety managers and union representatives. While it is responsible for building a framework for safety improvement Catalyst-wide, broad employee engagement is a vital part of site-specific action plans.

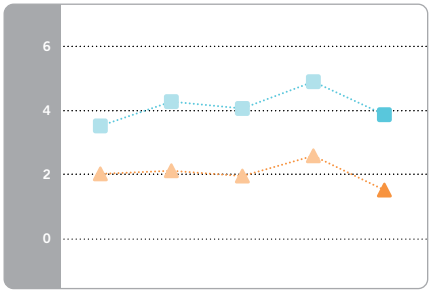
INJURIES

How Many



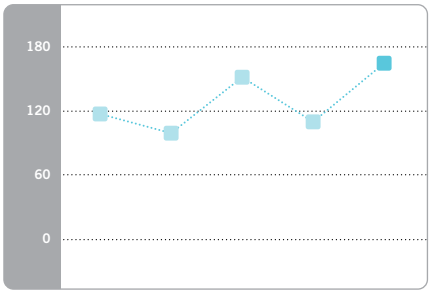
	07	08	09	10	11
Number of Incidents Requiring Medical Attention (MIs)	114	126	80	90	**70**
2011 Target: 55					
Number of Incidents Resulting in Lost Work Time (LTIs)	66	63	39	48	**28**
2011 Target: 27					

How Often



	07	08	09	10	11
MIs per 200,000 Hours Worked	3.67	4.45	4.23	5.09	**4.03**
2011 Target: 3.20					
LTIs per 200,000 Hours Worked	2.13	2.23	2.06	2.71	**1.61**
2011 Target: 1.60					

How Severe



	07	08	09	10	11
Average Number of Work Days Lost Due to Injuries	122.1	103.6	157.5	114.7	**171.0**
2011 Target: 100.0					

These figures are current as of February 29, 2012, and some previously reported figures have been updated. For example, the 2010 LTI total has increased by nine (with a corresponding increase in MIs, of which LTIs are a subset). This mainly reflects injuries that resulted in missed work on a delayed basis, due to longer term injury progression or surgical wait times.

ENGAGING TODAY'S WORKFORCE

Opportunities for Catalyst employees to make their views known, be well informed and engaged, and be recognized for their achievements grew significantly in 2011.

Comprehensive employee surveys are now conducted twice yearly, with already strong response rates improving with each survey round. Surveys gauge perception on subjects ranging from corporate competence to concern for employees, to the quality of communication and work life in general.

Overall, results show a positive trend in trust and engagement across Catalyst. However, we see opportunities to provide employees with more information on our long-term strategies.

Survey trends have also informed a renewal of internal communications activities at Catalyst. This included an enhanced focus on communication channels such as a redesigned, employee-friendly intranet, reinstituted practices such as regular face-to-face executive updates at all mills, and efforts to improve supervisor communication skills.

The new President's Ovation Employee Award program was also launched in response to employee feedback. The first group of winners exemplify the application of diverse expertise to meet daunting challenges, guided by our Operating Philosophy.

SURVEY SAYS

AGREE/STRONGLY AGREE IN FALL 2011 SURVEY	TREND FROM Q3 2010 SURVEY
56% I am confident Catalyst can achieve its business objectives	↑
97% I believe working safely is a personal responsibility (baseline Q1 2011)	↑
64% I get enough feedback on how well I'm doing my job	↑

EMPLOYEES BY LOCATION (year-end 2011)

Location	Workforce	Payroll ($ millions)
Crofton	569	$ 56
Elk Falls & Paper Recycling (closed operations)	6	$ 4
Port Alberni	315	$ 30
Powell River	410	$ 37
Snowflake	297	$ 24
Corporate & U.S. sales offices	194	$ 23
Surrey Distribution Centre	86	$ 5
Total	1,877	$ 178

Variation in payroll total due to rounding.

TOTAL EMPLOYEES AND PAYROLL

Year	Workforce	Payroll ($ millions)
2011	**1,877**	**$ 178**
2010	1,803	$ 175
2009	1,851	$ 195
2008	2,711	$ 264
2007	3,023	$ 304

Workforce figures are for active employees at year-end and exclude vacancies; total paid figures include all salaries and wages paid but exclude benefits and severance.

DEVELOPING TOMORROW'S WORKFORCE

Human resource management at Catalyst in 2011 was less about managing the transition to a smaller workforce – a necessary focus over the last few years – and more about renewed recruitment and workforce development. Like other employers, Catalyst is experiencing the demographic shift that is beginning to drive large numbers of retirements.

On the staff side, we focused on meeting increased recruitment needs and on detailed succession planning and individual development plans, which also provided a clearer picture of existing subject matter expertise.

There were also recruitment needs on the hourly side, for the first time in a number of years. Detailed demographic studies and five-year plans were completed for each mill, and new hiring practices implemented.

As part of our plan to develop future leaders in a tight labour market, apprenticeships were reintroduced on a modest scale in 2011, co-op placements expanded, and other internal development opportunities refined.

RETIREMENTS AT B.C. MILLS:

1,068
TOTAL HOURLY EMPLOYEES AS OF OCT. 2010

754
PROJECTED RETIREMENTS TO 2020

>70%
OF HOURLY EMPLOYEES ARE EXPECTED TO RETIRE THIS DECADE

WELCOME BACK

A number of former Catalyst employees returned to the company in 2011. Keith Ellwood came back to Port Alberni as a technical manager after about a year in northern Alberta's energy industry. "What Catalyst provides you, which other workplaces may not, is the opportunity to be involved in a lot of projects and in the problem-solving process," he says. Working where the continuous-improvement imperative is strong, he adds, provides highly valuable experience for young engineers. Emile Weekes returned as a senior IT specialist at the Nanaimo corporate office, after a brief period working in the educational sector in Vancouver. Key motivators for him were the ability to strike a good work-life balance and the advantage of combining competitive pay with Vancouver Island's relatively modest cost of living.

Neither returned under any illusions as to the challenges Catalyst and the paper industry still face. But Emile notes that advancement opportunities due to attrition are a counter-balancing factor. "The industry is consolidating, but it's not going to go away. If you can get in and weather the storm, there's great opportunity," he says.

SUPPORTING SKILLS DEVELOPMENT

Catalyst provides annual and industry-relevant scholarships at the British Columbia Institute of Technology and the University of British Columbia (two at each). And an annual Catalyst-organized golf tournament funds scholarships and a new print-related internship at California Polytechnic State University. In addition to these long-standing initiatives, we donated electronic equipment from our closed Elk Falls mill to North Island College in British Columbia, in recognition of which a Catalyst-branded scholarship will be awarded at the school in 2012.

COMPENSATION + REPRESENTATION

Most Catalyst employees are represented by a union, which negotiates hourly wages and benefit packages for its members. Most of these employees participate in multi-employer pension plans to which Catalyst contributes a fixed per cent of their earnings.

The other 26 per cent of Catalyst employees, who have mainly corporate support and managerial roles, are compensated with annual salary and benefit packages that include a defined contribution pension plan.

Collective agreements expired and were renegotiated with most unions at Snowflake in 2011 (renegotiation was not yet concluded with the United Transportation Union at year-end). New agreements include co-operative and creative approaches that will contribute to the mill's competitiveness while limiting impacts for employees. Graduated pay scales better reflect the greater efficiency that more senior employees typically bring, and reduce costs for new hires and entry-level positions. Similar levels of benefits were maintained at lower costs, in part by focusing on those benefits most commonly used.

Details on corporate financial performance are available in Catalyst's annual report: www.catalystpaper.com/investors

74%

OF EMPLOYEES ARE UNIONIZED

UNIONS AND MEMBERSHIP

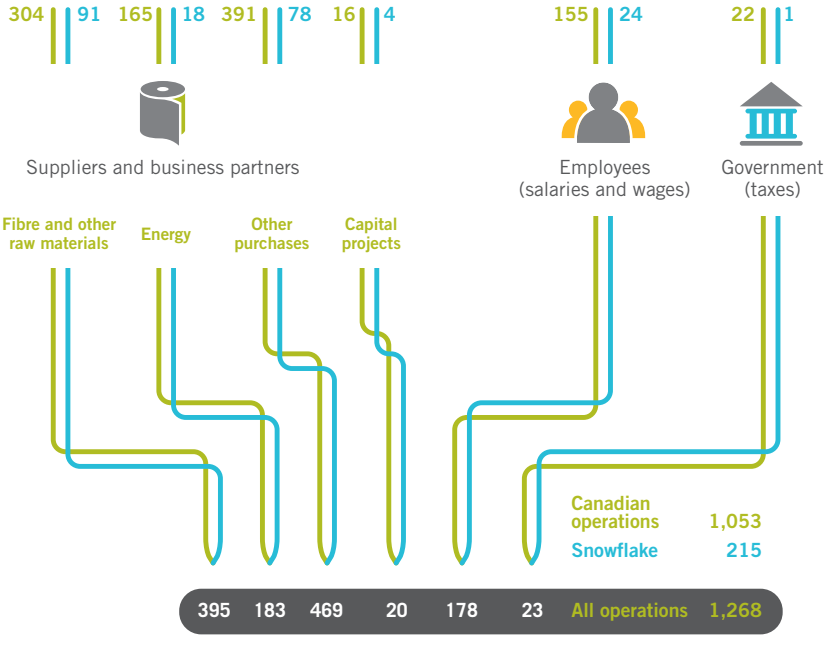
CANADIAN OPERATIONS (number of employees)
Canadian Office and Professional Employees Union (2)
Christian Labour Association of Canada (74)
Communications, Energy and Paperworkers Union of Canada (701)
Pulp, Paper and Woodworkers of Canada (379)

SNOWFLAKE (number of employees)
Carpenters Union (8)
International Brotherhood of Electrical Workers (33)
United Steelworkers of America (180)
United Transportation Union (3)

Includes active employees at year-end. The remaining 497 employees, including 11 hourly employees at Snowflake, are not represented by a union.

OUR ECONOMIC FOOTPRINT...

DIRECT SPENDING ($ millions)



Variations in totals due to rounding.

Creditors	74
Shareholders	0
Total Direct Economic Impact	**1,341**

Catalyst's mills are among the largest manufacturing operations in southwestern British Columbia and northern Arizona. And as the figures to the left show, they have a substantial direct economic impact, even when corporate financial performance is weak.

Economic multipliers suggest that our operations generated additional indirect and induced benefits amounting to roughly:

- $1.1 billion in economic activity and 5,400 jobs elsewhere in the British Columbia economy in 2011, and
- $140 million in economic activity and 1,000 jobs elsewhere in the Arizona economy in 2011.[1]

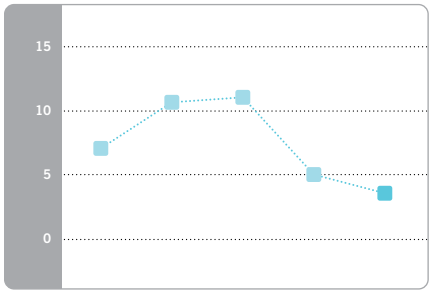
Shareholders have not received dividends since 2001 and were excluded from direct value distribution in 2011.

1 Estimated using approximations of jurisdiction-specific revenue generation and applying British Columbia Provincial Economic Multipliers (BC Stats) and RIMS II Multipliers (U.S. Bureau of Economic Analysis, based on final demand).

THE MARKET'S VERDICT ON VALUE

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) as a per cent of sales is a financial performance measure closely followed by investors and analysts, and an indicator of ability to retain and attract capital. Market capitalization trends, representing the value of all outstanding shares over time, provide a further indication of investor sentiment.

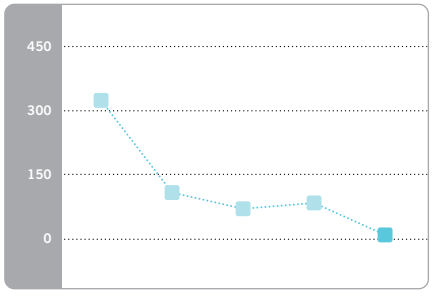
EBITDA as % of Sales
(before specific items)



07	08	09	10	**11**
7.4	11.1	11.5	5.8	**3.8**

We have substituted this measure, a more standardized one which is included in our financial reporting, for Return on Capital Employed.

Market Capitalization
($ millions)



07	08	09	10	**11**
337	115	76	90	**13**

Based on shares outstanding and share prices at year-end. Catalyst shares traded on the Toronto Stock Exchange until the company's filing for creditor protection on January 31, 2012.

SUPPORTING OUR COMMUNITIES

The spirit and dedication of Catalyst employees translated into considerable community support, despite financial realities that limited corporate charitable donations. Employee payroll contributions to the United Way totalled more than $100,000, for example, with additional amounts raised through other donations and fundraising.

$300,000
MULTI-YEAR COMMITMENT TO ALBERNI VALLEY MULTIPLEX

OTHER FORMS OF COMMUNITY SUPPORT INCLUDED:

- a $10,000 corporate donation to the Salvation Army in Powell River, to help pay for a new van used to provide community services;
- payment of an additional $30,000 instalment of a total $300,000 multi-year corporate funding commitment to the Alberni Valley Multiplex sports facility;
- small-scale corporate support for various community initiatives on Vancouver Island, including a donation of Crofton newsprint used to print programs for a provincial minor hockey tournament in Campbell River;
- continued collection at Snowflake of household recyclable paper from employees, with the value then donated by Catalyst to a camp for people with special needs; and
- continued participation of head office employees in the Easter Seals 24-hour relay, which this year pushed Catalyst's cumulative fundraising past a $200,000 milestone.

SEEKING PROPORTIONATE PROPERTY TAXES

Our Canadian mills pay high municipal taxes. We have long advocated for tax rates in these communities that better reflect the cost of services we consume, and better support the competitiveness of the local mills. We continued in 2011 to pursue a legal challenge to the highly disproportionate tax rates in the District of North Cowichan.

While our appeal was dismissed in early 2012, the Supreme Court of Canada agreed that our tax treatment has been "harsh". The decision also removed any doubt that a comprehensive solution – to a problem with significant implications for British Columbia's investment climate – needs to involve action on the part of the provincial government.

We continued to collaborate with the City of Powell River on potential co-use of waste treatment infrastructure – part of a 2010 agreement that also included tax reductions – although the city had not yet obtained funding from senior levels of government that it requires to implement this arrangement.

W See www.catalystpaper.com/about/municipal-property-taxation

TAXES PAID (property taxes include school district and other provincial levies and exclude any penalties and interest)

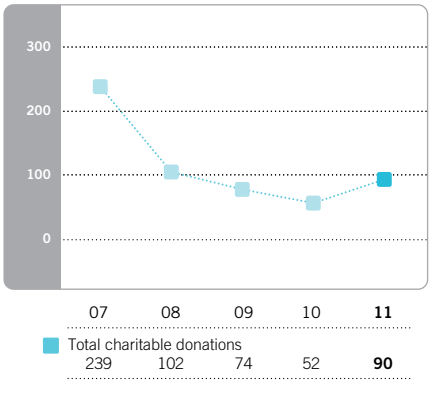
($ millions)	2011	2010	2009	2008	2007
Other taxes [1]	4.5	9.7	11.8	18.0	17.1
Property taxes					
Crofton (North Cowichan, B.C.)	6.2 [2]	2.4	6.9	8.4	8.8
Elk Falls (Campbell River, B.C.)	2.8	4.8	6.2	7.6	8.0
Paper Recycling (Coquitlam, B.C.)	0.9	1.3	1.4	1.4	1.4
Port Alberni	4.7	5.0	5.4	6.3	6.9
Powell River	2.9	3.0	4.5	6.0	5.9
Snowflake	0.6	0.6	0.7	0.4	–
Corporate, support offices and other	0.5	0.7	0.8	0.9	1.1
Total	23.0	27.5	37.8	49.0	49.2

Variations in totals due to rounding.

1 Includes income taxes, large corporation taxes, logging and sales taxes, and British Columbia carbon tax. The reduction from 2010 reflects the replacement of the provincial sales tax and goods and services tax with the harmonized sales tax in British Columbia.

2 An additional $4.0 million was paid to North Cowichan in 2011 for property taxes levied for 2010 which were withheld during a legal challenge. Pursuant to statutory requirements, the payment was applied firstly to pay outstanding 2010 property taxes, penalties and interest in full and secondly to 2011 property taxes. As a result, there were unpaid property taxes owing to North Cowichan for 2011, together with the 10 per cent penalty for late payment, of $0.4 million at December 31, 2011. This amount has since been paid.

Charitable Donations
($ thousands)



Donations to Canadian and U.S. charities as reported for tax purposes.

SHARED INTERESTS WITH FIRST NATIONS

$1.8

MILLION DAM REPLACEMENT

Working in a strategic alliance with the Hupacasath First Nation, Catalyst replaced the Robertson Creek Dam near our Port Alberni mill in 2011. This $1.8 million investment brought the structure into full compliance with recently strengthened provincial guidelines. Efforts continued at year-end to reach an arrangement to transfer ownership of the dam, which sits on property owned by a third party, to the Hupacasath. Their interest in it relates to fish habitat management and potential energy generation.

Both the Hupacasath and the neighbouring Tseshaht First Nation endorsed our boiler upgrade project at Port Alberni, and we signed a memorandum of understanding (MOU) with the Sliammon First Nation in connection with increased green energy generation at Powell River. The MOU makes provision for a Sliammon-Catalyst Development Fund, and collaboration with potential business and employment benefits for the Sliammon.

SERVING OUR...

CUSTOMERS

A POD-BASED APPROACH TO BETTER CUSTOMER SERVICE

Most customers of the Snowflake mill had the benefit at year-end of a new service-delivery model. It's designed to better co-ordinate the cross-functional expertise that ensures customers get their product on-time, in-full and packaged with excellent service.

A new "pod" draws together subject matter experts with responsibilities extending from order entry – through production planning, delivery, and credit and billing – to followup service and repeat business. Daily meetings for a core group and a full weekly teleconference have shrunk the distance between pod members at the mill and those at head office and elsewhere. The pod collectively anticipates potential challenges and solves problems before they impact customers, while also maximizing production and distribution efficiency.

Snowflake was a valuable mill at which to pilot this approach, since it ships directly to customers without the flexibility of being able to warehouse production. The pod model began to deliver improvements on service-related performance measures in 2011 and is expected to boost market share over time. Pods for other locations and functions will likely be formed in 2012.

>30,000

TONNES OF ENVIRONMENTALLY PREFERRED SAGE PRODUCTS SOLD IN 2011

TAKING THE PULSE ON CUSTOMER PERCEPTIONS

A survey of Snowflake customers in 2011 provided part of the baseline that will help gauge the success of the service delivery pod. One of the most interesting findings was the high value Snowflake customers attach to recycled production, contrasted with the relatively modest value they attach to Forest Stewardship Council production. Among respondents, 43 per cent ranked Catalyst as their top preferred supplier.

PRODUCT DIVERSIFICATION

We continued to move higher up the value chain in 2011, and to ensure our product mix lines up well with market demand and can support competitive returns.

Catalyst is offering more diversity within existing product lines, including a new lighter basis weight of our Pacificote coated four product and a new bulkier grade of uncoated paper for book publishers.

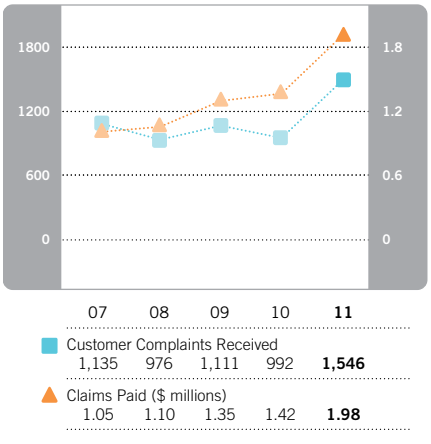
We also continued to diversify production capacity at individual mills, providing added assurance of reliable and freight-logical deliveries. This included expanded lightweight production for use in retail inserts at both Crofton and Snowflake.

Our Sage-designated products – made exclusively with certified fibre and with no net carbon emissions during manufacture – continued to sell well in 2011. Sage products represent a rare opportunity to recover some of the added costs often associated with superior environmental practices.

A third-party audit was commenced in 2011 to provide assurance relating to our manufactured carbon-neutral claims for Sage and other products sold since 2007. It will be completed in early 2012.

Customers

(complaints received) (claims paid, $ millions)



Increased claims paid primarily reflect mid-year paper quality issues at Port Alberni. The value of claims specific to that operation returned to a more typical level in the fourth quarter. Increased complaints received primarily reflect a rise in typically small-value "handling" complaints, and is believed to reflect increased customer sensitivity rather than a change in performance.

2010 figures updated to reflect post year-end adjustments based on final claims settlements.

FROM MILL TO MARKET

Timely and cost-efficient product delivery is an important part of our customer service focus. And research indicates that product distribution is a large contributor to our scope 3 or supply chain-related greenhouse gas emissions (see page 27). A key metric with efficiency implications of both types is yield, or the amount of product per shipping unit.

In 2011, we remained a registered partner in the U.S. Environmental Protection Agency's SmartWay program. This requires us to meet targets for use of SmartWay-registered shippers, who are taking steps to reduce their emissions. The majority of our shippers have this registration, and it's a preferred criterion for new ones.

Our Surrey Distribution Centre (SDC) handles outgoing shipment of products from our Canadian mills. In 2011, SDC diversified its activities by handling more incoming supplies for our mills, and by handling outgoing products for other manufacturers. In addition to reducing costs and generating revenue, these changes make better use of the backhaul capacity of shipping units used to move Catalyst products to market.

DISTRIBUTION YIELD BY MODE

	2011	2010	2009	2008	2007
Surrey Distribution Centre – rail (tonnes/car)	74.0	73.4	73.6	73.7	72.3
Surrey Distribution Centre – truck (tonnes/truck)	26.3	26.7	26.3	25.2	23.6
Surrey Distribution Centre – container (% utilized)	97.4	96.8	97.0	96.9	96.8
Snowflake – rail (tonnes/car)	77.4	78.0	76.2	74.9	–
Snowflake – truck (tonnes/truck)	19.9	19.9	19.9	20.0	–

MOVING FORWARD ON OUR...

EFFICIENT RESOURCE USE

Environmental performance reflects operating-platform and production-level changes, including the 2008 acquisition of Snowflake, the 2009 closure of Elk Falls, and the 2010 closure of the Paper Recycling Division.

(see production figures page 37)

ENERGY

Energy managers at each mill lead ongoing site-wide efforts to use fuel energy and electricity more efficiently. This reduces one of our largest input costs, as well as greenhouse gas and other emissions.

Intensity of energy use has been impacted in recent years by production curtailments and the product mix. Reduced pulp production in 2009, for example, resulted in relatively low fuel-energy intensity and increased electricity intensity. Usage of both fuel energy and electricity per tonne of production varied only moderately in 2011.

A new Energy Improvement Team is streamlining the process of moving from conservation ideas to implementation, and developing usage benchmarks and analysis based on current mill configurations. Common improvement opportunities include lighting and pumping upgrades, equipment retrofits, and process simplifications. Projects underway at year-end had total projected energy savings of about four megawatts, equivalent to the energy use of some 3,300 households.

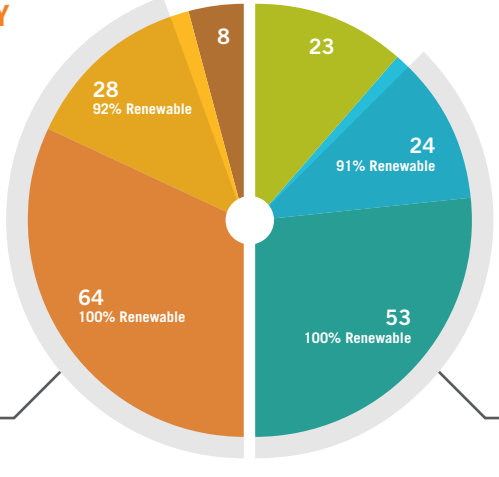
Biomass-based self-generation at Powell River and Port Alberni was re-certified as renewable and low-impact, under newly strengthened EcoLogo program criteria, and an application was being prepared for this certification at Crofton at year-end. This further strengthens the environmental pedigree of products from these mills.

ENERGY MIX AND RENEWABILITY

Breakdowns based on net energy use and account for use of some fuel energy to self-generate electricity.

CANADIAN OPERATIONS

Total Energy Use: 40.6 Million GJ
Intensity (28.2 GJ/adt)



CORPORATE WIDE

Total Energy Use: 48.3 Million GJ
Intensity (28.0 GJ/adt)

Total **89%** Renewable

75% Total Renewable

adt – Air-dried tonnes of product

GREEN TRANSFORMATION PROGRAM

We substantially completed two major capital projects using $18 million in credits earned under this Canadian federal government program. With a new steam condenser in place, we can operate our Powell River power boiler at higher capacity and generate about 17 megawatts of carbon-neutral energy for sale to BC Hydro. And power boiler upgrades at Port Alberni will improve its efficiency and reliability, and reduce emissions.

17

MEGAWATTS OF GREEN ENERGY TO BE GENERATED FOR SALE

ENERGY FROM WASTE

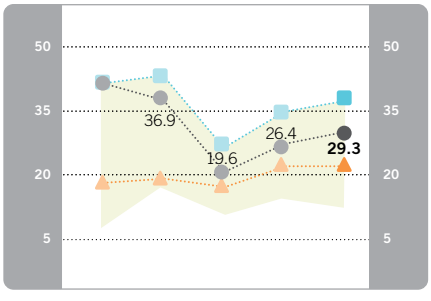
New effluent-related technology went into small-scale demonstration use at Crofton in 2011. Among other benefits, it has the potential to reduce the volume of and recover energy from treatment sludges that make up a big part of a typical mill's solid waste stream. This government-supported demonstration project aims to confirm the effectiveness of the technology and the appropriate scale for potential commercial use.

TURNING OFF THE AIR FLOW

Awareness-raising relating to energy loss led to questions about the long-standing use of compressed air to keep water and debris off paper sheets on one of Powell River's paper machines. This was discussed during regular company-wide dialogue among paper machine managers, and it turned out Snowflake and Crofton were using a better solution. Powell River adopted their approach, installing metal fenders at an all-in cost of about $1,000. Two energy-consuming and continuously operated air hoses were then taken offline, at an annual cost saving of more than $340,000.

Total Fuel Energy Use

(millions of GJ/year) (GJ/adt)



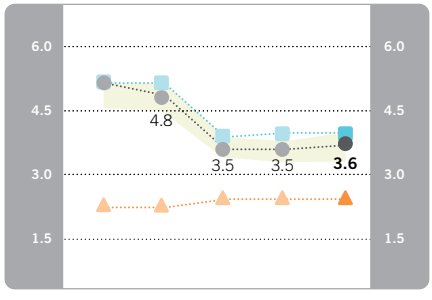
	07	08	09	10	**11**
Absolute (million GJ/year)	41.0	42.9	25.5	34.2	**36.8**
Performance Excluding Snowflake (million GJ/year)					
Intensity (GJ/adt)	17	18	16	21	**21**

The shaded portion above represents renewable fuels (biomass); the rest is fossil fuels.

adt – Air-dried tonnes of product

Total Electricity Use

(millions of MWh/year) (MWh/adt)



	07	08	09	10	**11**
Absolute (million MWh/year)	5.1	5.1	3.8	3.9	**3.9**
Performance Excluding Snowflake (million MWh/year)					
Intensity (MWh/adt)	2.1	2.1	2.3	2.3	**2.3**

The shaded portion above represents self-generated electricity; the rest is purchased.

Some renewable/fossil fuels and self-generated/purchased breakdowns for prior years have been updated to reflect calculation adjustments.

WOOD FIBRE

Our focus on responsible sourcing and efficient use of wood fibre lightens the demands we place on forest ecosystems and gets the most value from scarce recovered paper supplies.

In 2011, more than two-thirds of the fibre delivered to our Canadian mills was independently certified to either the Canadian Standards Association or Sustainable Forestry Initiative standards – both of which are recognized by the Programme for the Endorsement of Forest Certification (PEFC) – or to the Forest Stewardship Council (FSC) standard. More than three-quarters of the recovered paper delivered to Snowflake met FSC post-consumer criteria, exceeding the minimum 70 per cent content confirmed by its "FSC Mix" label.

Our Canadian mills have PEFC chain-of-custody systems and, in 2011, put FSC chain-of-custody in place as well, allowing for on-product labelling of both types. An FSC "controlled wood" risk assessment was also completed, and ensures that non-certified wood comes from legal sources and meets other basic sustainability criteria.

A key measure of efficiency of fibre use is the solids content in mill wastewater systems. Our Canadian mills monitor this and pursue improvement targets by focusing on the efficiency of fibre cleaning, screening and reclamation, and by reducing leaks and overflows.

Fibre-use efficiency is equally important at Snowflake, although variable contamination levels in available recovered paper are a significant influencing factor. Snowflake trialled the use of a piece of idled equipment as a secondary flotation device in 2011, in an effort to improve recovery of usable fibre from waste streams.

We voluntarily report on fibre use to the Forest Footprint Disclosure project (www.forestdisclosure.com).

W

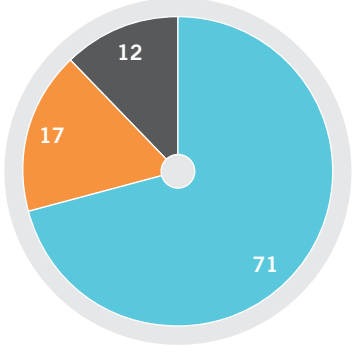
GREAT BEAR RAINFOREST: FROM AGREEMENT TO ACTION

Catalyst has never cut down a tree in the region, yet we recognize our responsibility as a customer of the companies that do. This is the philosophy that led us to play an active role in reaching what may be the most comprehensive conservation achievement in North American history. In 2011, we remained engaged in the hard work of bringing the agreement to life on the ground, as a member of the Coast Forest Conservation Initiative.

Through this initiative, about a third of the Great Bear Rainforest is now protected, in a manner that specifically accommodates First Nations uses, and forestry operations have been dramatically transformed and FSC certified. The key outstanding conservation objective is to achieve a defined level of natural ecological variation – on a composite measure of factors such as tree age and habitat availability – by 2014.

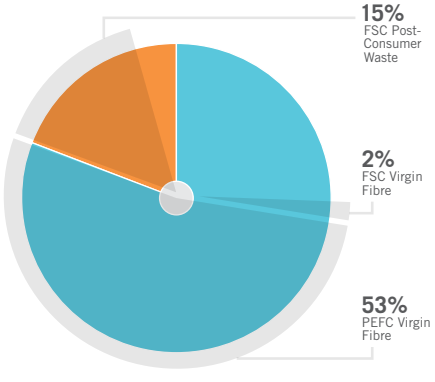
Using detailed geographic information system modelling, industry and environmentalists sought planning and management options that will reconcile achievement of the natural variation objective with economically viable forestry. The volume of harvesting remained limited in 2011.

Fibre Usage by Type
(% 2011)



- SAWMILL WOOD CHIPS
- RECOVERED PAPER
- PULP LOGS

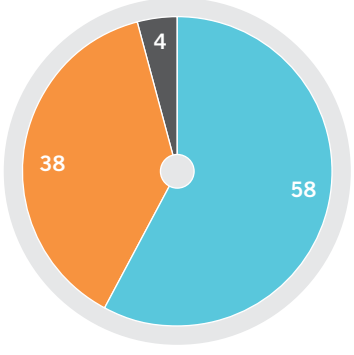
Fibre Certification[1]
(% 2011)



- WOOD CHIPS AND PULP LOGS (CANADIAN MILLS)
- RECOVERED PAPER (SNOWFLAKE)

70% TOTAL CERTIFIED

Fibre Origin (Chips and Logs)
(% 2011)



- B.C. COAST
- B.C. INTERIOR
- U.S. PACIFIC NORTHWEST

1 Certified fibre is tracked relative to deliveries to mills rather than usage. More recovered paper was delivered to Snowflake than was used during 2011, in part due to inventory loss from a fire.

WATER USE

Stakeholder interest in water management and use was heightened again in 2011, and processes such as British Columbia's Water Act modernization created the potential for revised prices and allocations.

Our mills withdraw water from wells, lakes and rivers under permits and in return for fixed payments. Some water is consumed through evaporation and incorporation into products, but most is discharged after use. For the Canadian pulp and paper industry, about 10 per cent of water withdrawn is estimated to be consumed.[1]

Consistent with standard industry practice, we track our water use based on treated effluent discharges, and, in 2011, discharges per tonne of production were essentially unchanged.

In 2012, we will assess the water supply risk at one of our operations, using tools developed by the World Wildlife Fund and the World Resources Institute, and we expect to assess the other mills over the following two years. This will provide part of the basis for expanded efforts to better mobilize employees to reduce discretionary water consumption.

MILL WATER AUDITS CONTINUE

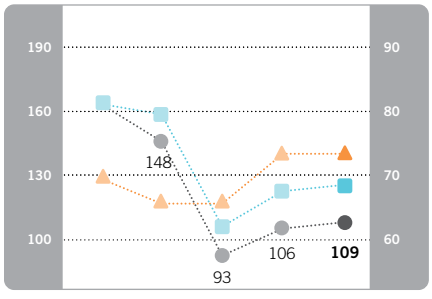
We conducted a second comprehensive mill water audit, this one at Crofton. The mill now has better baseline data and a prioritized suite of improvement initiatives, some of which were underway at year-end. One major initiative targets improved heat transfer at the kraft mill evaporator system, to reduce use of both cooling water and energy.

The audit also identified challenges with water interconnections, which limit use reductions when a machine is not operating, and which will be further analyzed.

Port Alberni continued to follow up on opportunities identified in its 2010 water audit. Two chemical generators were situated side-by-side and their cooling water discharges were diverted from the wastewater system and made available for reuse.

Total Water Discharges

(million m^3/year) (m^3/adt)



	07	08	09	10	**11**
Absolute (million m^3/year)	166	161	107	124	**127**
Performance Excluding Snowflake (million m^3/year)					
Intensity (m^3/adt)	70	66	66	74	**74**

Consistent with standard industry practice, we track our water use based on treated effluent discharges.

adt – Air-dried tonnes of product

1 National Council for Air and Stream Improvement: Presentation to Canadian Water Summit, June 2010.

MOVING FORWARD ON OUR...

LOW-IMPACT PRODUCTION

GREENHOUSE GASES

Our company-wide greenhouse gas (GHG) emissions declined modestly from 2010 in both absolute and intensity terms. Powell River returned to more typical emission levels and was the only mill to register an increase.

The absence of maintenance-related shutdowns of the biomass boiler in 2010 contributed to exceptionally low emissions at Powell River that year. In contrast, maintenance requirements in spring 2011 increased fossil fuel use, as did operational adjustments following installation of a new steam condenser late in the year. Powell River remained the least carbon intensive Catalyst mill, with emissions significantly below industry averages.

We track our emissions in accordance with ISO 14064-1 and other widely recognized standards, and voluntarily report them to the Carbon Disclosure Project (www.cdproject.net). As a long-standing World Wildlife Fund Climate Savers company, we committed to a 70 per cent absolute reduction in direct emissions at our Canadian operations from a 1990 baseline. Our 2011 reduction was 84 per cent (about 45 per cent of which was due to operational closures since 1990).

W

While the outlook for additional regulation was uncertain at year-end, GHG emissions remain a priority for customers and stakeholders and an important operational focus for Catalyst. There is a legislated target in British Columbia of an absolute reduction in direct emissions of 33 per cent from a 2007 baseline by 2020. If applied directly to Catalyst operations, this would require emissions of 169,000 tonnes, compared to 2011 emissions of 215,000 tonnes.

Given the scale of the reduction we've already achieved, further viable GHG reduction opportunities at our mills are limited. We are, however, targeting ongoing improvement through optimization of our fuel mix, efficient energy use, good machine productivity and strategic investments such as the power boiler upgrade at Port Alberni (see "Green Transformation" page 22).

We pay a carbon tax on fossil fuels in British Columbia, and discussions continued there in 2011 regarding allocation of reduction requirements and potential implementation of a cap-and-trade system.

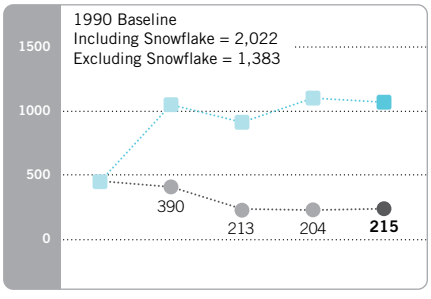
6%

REDUCTION IN GHG INTENSITY FROM 2010

"NO REGRETS" ON CLIMATE AND ENERGY

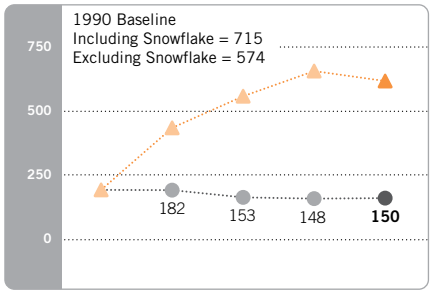
Catalyst was one of several industry participants engaged in a dialogue with major environmental groups that focused on "no regrets" climate and energy-related policy recommendations. In addition to endorsing carbon pricing, participants agreed on eight specific actions that would collectively represent a small but important step towards reducing GHG emissions while supporting economic development. They span the areas of energy efficiency, transportation, data transparency, renewable energy, research and development and innovation. "Our goal," the signatories said, "is to show that agreement is possible, and therefore so too is action."

Direct GHG Emissions (scope 1), Absolute
(thousand tonnes CO_2e/year)



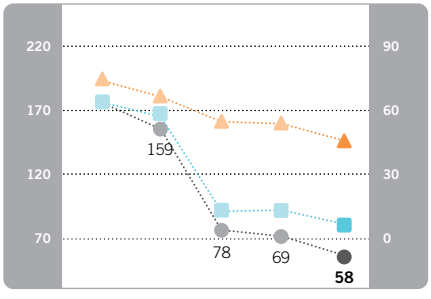
	07	08	09	10	11
Including Snowflake	432	1,050	909	1,103	**1,070**
Performance Excluding Snowflake					

Direct GHG Emissions (scope 1), Intensity
(kg CO_2e/adt)



	07	08	09	10	11
Including Snowflake	183	432	559	660	**620**
Performance Excluding Snowflake					

Indirect GHG Emissions (scope 2)
(thousand tonnes CO_2e/year) (kg CO_2e/adt)



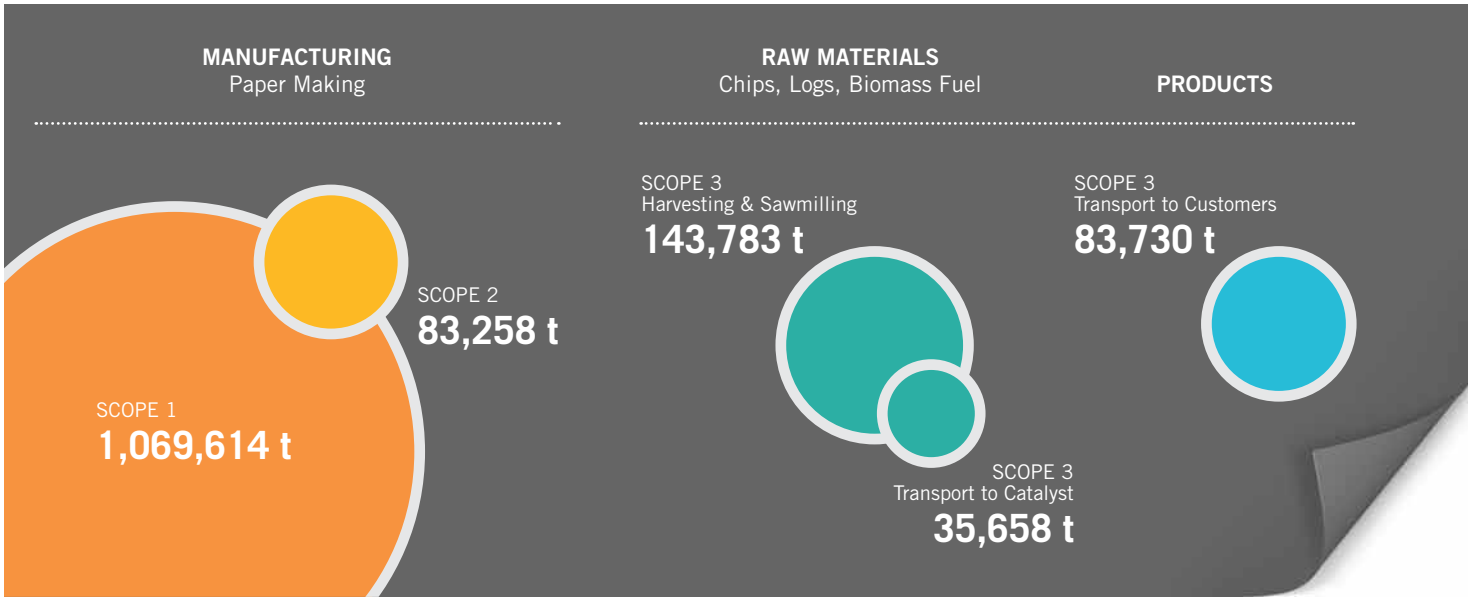
	07	08	09	10	11
Absolute (thousand tonnes CO_2e/year)	181	169	93	94	**83**
Performance Excluding Snowflake (thousand tonnes CO_2e/year)					
Intensity (kg CO_2e/adt)	77	69	57	56	**48**

2009 and 2010 figures updated to correct a calculation error.

adt – Air-dried tonnes of product

Environmental metrics are shown in terms of both absolute (amount per year) and intensity (amount per tonne of production). Intensity measures are based on production totals that include internally produced and consumed pulp, as well as product not meeting quality requirements for sale. These production totals (1,726.4 thousand tonnes) were, therefore, higher than sales-based production totals (1,655.8 thousand tonnes) included in Catalyst's financial reporting.

2011 SCOPE 3 ESTIMATES (TONNES CO_2e)



THERE ARE THREE CATEGORIES OF GREENHOUSE GASES:

SCOPE 1:

Produced directly by our own operations. Use of carbon-neutral biomass for fuel at our Canadian mills limits these emissions, but they make up by far the biggest proportion of our emissions and the ones we most firmly control.

SCOPE 2:

Associated with purchased energy in forms such as electricity. These make up a small proportion of our emissions due to British Columbia's low-carbon electricity supplies and to the electricity self-sufficiency of our Snowflake mill.

SCOPE 3:

Associated with production of purchased supplies, and with transportation of supplies and products. While there's no consensus on how to account for these emissions, we include estimates of major sources in our Climate Disclosure Project response and are partnering with transportation suppliers to reduce them (see "Mill to Market" page 20).

PARTNERING FOR CLEAN PRODUCTION

Catalyst's partnership with World Wildlife Fund Canada (WWF) continued to inform strategies and improvement initiatives in 2011. This partnership powerfully combines a major manufacturer's ability to effect change, with WWF's science-based capacity to provide critical, constructive and highly credible guidance.

The partnership gave rise to the 70 per cent GHG-reduction commitment we made through WWF's Climate Savers program, and was instrumental in both identifying the opportunity for carbon-neutral paper manufacturing and in backstopping the authenticity of the resulting Sage products. The partnership has also informed mill-specific improvement targets for energy, water and fibre use.

Our Clean Production Initiative (CPI) is the main operational outcome. Improved measurement and prioritized emissions, identified with a WWF methodology, have driven reductions. In 2011, we better aligned our prioritizations with actionable opportunities.

CPI has also driven assessment of the origin of emissions, particularly heavy metals, in raw materials. While no short-term opportunities were identified to reduce naturally occurring metals content in clay, our supplier is assessing the longer term feasibility of selective mining. We also worked in 2011 on finding ways to simplify toxicity screening, and to get better insight on confidential ingredients in purchased materials.

An updated partnership agreement concluded in late 2011 builds on CPI-related work to date and includes a new focus on water use (see page 24).

PARTICULATE EMISSIONS

Particulate emissions per tonne of production declined in 2011. Particulates are airborne solids generated by combustion. Small-diameter particulates can have health impacts and there are stringent regulatory limits on industrial emissions. Monitoring requirements and air-quality objectives also apply in British Columbia.

Effective particulate control enables the use of optimal amounts of carbon-neutral biomass fuel at our Canadian operations, reducing both operating costs and greenhouse gas emissions. Assessments done in partnership with World Wildlife Fund Canada (see page 27) have also indicated a link between particulates and heavy metal emissions.

Extensive investments in boiler efficiency and particulate control were made at earlier stages in the operation of Catalyst mills. Fuel quality is a key factor that influences year-to-year variability within the current low emissions range.

A PARTICULATE FOCUS AT CROFTON

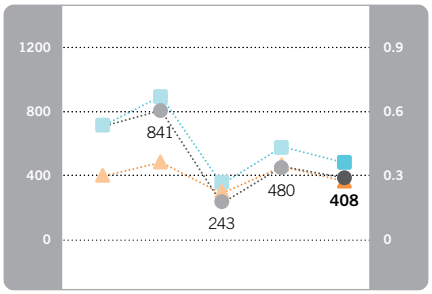
Following problematic performance in 2010, Crofton sharply focused on reducing particulate emissions from its main biomass boiler. Modelling and assessment indicated that air streams entering the pollution control equipment needed to be better distributed, and, in the fall, a series of baffles was installed.

Monitoring results as of year-end were encouraging, although not yet sufficient to conclude definitively that significant and sustained improvement had been achieved. Performance will continue to be closely monitored in 2012.

Crofton's total annual particulate emissions were down, despite both further increases in salt content in available biomass fuel and increased pulp production. Significant particulate reductions at two recovery boilers, attributable to an upgrade at one of them, contributed to year-over-year improvement.

Total Particulate

(tonnes/year) (kg/adt)



	07	08	09	10	11
Absolute (tonnes/year)	733	932	366	607	**506**
Performance Excluding Snowflake (tonnes/year)					
Intensity (kg/adt)	0.31	0.38	0.23	0.36	**0.29**

All figures based on actual test results; NPRI data (see page 38) may differ because it uses emission factors and includes other sources.

adt – Air-dried tonnes of product

SOLID WASTE

Catalyst mills produce solid wastes composed mainly of ash from energy generation, effluent treatment sludges and residual recovered paper (a byproduct of recycling). While much of this waste stream is either incinerated for energy generation or recycled, about half of it in 2011 was disposed of at company-owned landfills.

77%
OF KEY MATERIALS SOURCED FROM WASTE
(SEE PAGE 37)

There was a significant increase in the proportion of effluent treatment sludges used for energy generation at Snowflake. Among other advantages, using this sludge as a fuel prevents formation of methane gas during decomposition, which has a high global warming impact.

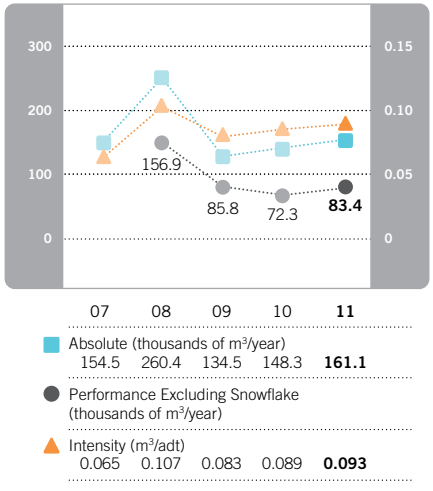
Effluent treatment sludges are among the fuels used by an independently owned and operated green energy-generation facility on the Snowflake mill site, which upgraded conveying systems in 2011 to increase the diversion rate.

However, levels of contamination in Snowflake's recovered paper supplies increased in 2011, contributing to solid waste generation. Potential recycling or reuse options for contaminants such as plastics and metals were under assessment at year-end.

Solid waste generation per tonne of production increased modestly in 2011, reflecting special disposal requirements such as those associated with the replacement of a dam.

Solid Waste to Landfill

(thousands of m^3/year) (m^3/adt)



adt – Air-dried tonnes of product

TOTAL WASTE GENERATION, 2011

		Disposition	
	Weight (t)	% Landfilled	% Recycled or other
Fly ash	57,114	60	40
Grate ash, sand	22,758	29	71
Dregs and grits	5,814	100	0
Lime	87	100	0
Scrap metal	2,260	14	86
Waste oil	140	0	100
Effluent treatment sludges	137,949	37	63 [1]
Paper residuals	21,945	100	0
Other/miscellaneous	17,909	92	8
Total	265,977	51	49

1 Incineration (energy recovery).

Includes all waste generated at Catalyst's operating production facilities. Excludes wastes held on site pending shipment for disposal, the only material instance of which was fly ash at Snowflake, which is shipped on a 48-60 month frequency. Variations relative to previously published waste disposition figures for 2010 are due in part to a misclassification of treatment sludges as residuals.

PROCURING GREENER PRODUCTS

Sustainability is a routine part of Catalyst's dialogue with suppliers, and a growing number are bringing new solutions to the table. In 2011, a new enzyme-based cleaner was used in the starch-delivery system at Powell River, replacing a chemical-based product. Enzymes are naturally occurring proteins and are renewable, non-toxic and biodegradable. They've been found to both work better and cost less in this application. This change also reduced the likelihood of pH variability in effluent, and the need for operators to handle hazardous chemicals. While this application is small in scale, broader use of enzymes in cleaning and other contexts was being explored at year-end.

$1

BILLION IN PURCHASES FROM SUPPLIERS AND PARTNERS IN 2011

PRODUCING GREENER PRODUCTS

In the same way that we seek lower impact products from our suppliers, so too are we committed to providing them to our customers. Our Sage designated products, available across nine specialty paper grades, continued to attract market interest in 2011. Like all Catalyst products, they provide quality, reliability and excellent press performance. This is combined with verified environmental attributes relating to sources of fibre supply, chain-of-custody management, and carbon neutrality and other aspects of the manufacturing process. For every tonne sold, we direct $1 to the work of GreenBlue (see page 10).

9

PAPER GRADES AVAILABLE WITH SAGE DESIGNATION

ENVIRONMENTAL DATA TABLES

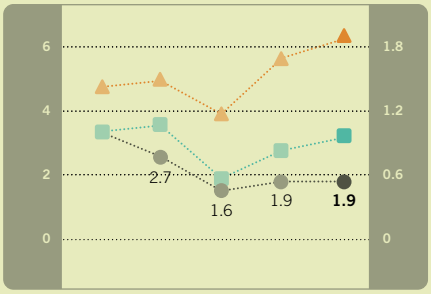
WATER QUALITY PERFORMANCE

Catalyst mills monitor the volume, temperature and quality of water discharges. Our Canadian mills participate in a federally mandated Environmental Effects Monitoring (EEM) program. In 2011, Crofton was authorized to move from a three- to a six-year cycle for EEM testing and evaluation, based on a demonstrated lack of impact in the local marine environment. Powell River already uses a six-year cycle. Both Crofton and Port Alberni also participate in multi-stakeholder watershed management planning forums.

Groundwater monitoring at Snowflake identified two instances in 2011 when total dissolved solids exceeded permit alert levels (while remaining within compliance levels). One was traced to a leak in an effluent storage pond. It was bypassed and extensively repaired, and more frequent monitoring instituted to ensure the problem has been solved. The second was traced to a leak in an ash lagoon. Work began in late 2011 to prepare to bypass and drain that lagoon, and it will be repaired after sufficient drying of the ash.

Total TSS – Total Suspended Solids

(thousands of tonnes/year) (kg/adt)



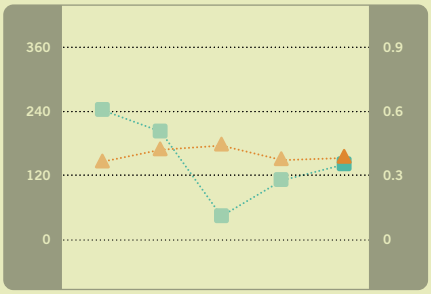
	07	08	09	10	**11**
Absolute (thousands of tonnes/year)	3.5	3.7	2.0	2.9	**3.3**
Performance Excluding Snowflake (thousands of tonnes/year)					
Intensity (kg/adt)	1.48	1.54	1.22	1.76	**1.94**

See discussion of Snowflake performance on page 35.

adt – Air-dried tonnes of product

Total AOX [1] – Adsorbable Organic Halides

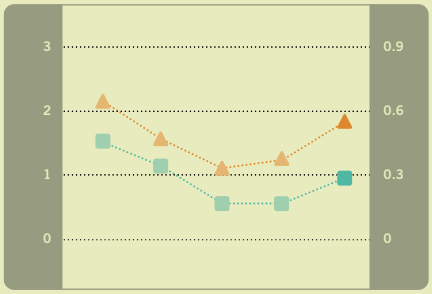
(tonnes/year) (kg/adt)



	07	08	09	10	**11**
Absolute (tonnes/year)	254	211	48	117	**147**
Intensity (kg/adt)	0.38	0.44	0.46	0.39	**0.40**

Total BOD [1] – Biochemical Oxygen Demand

(thousands of tonnes/year) (kg/adt)



	07	08	09	10	**11**
Absolute (thousands of tonnes/year)	1.6	1.2	0.6	0.6	**1.0**
Intensity (kg/adt)	0.68	0.49	0.35	0.39	**0.57**

See discussion of Crofton performance on page 35.

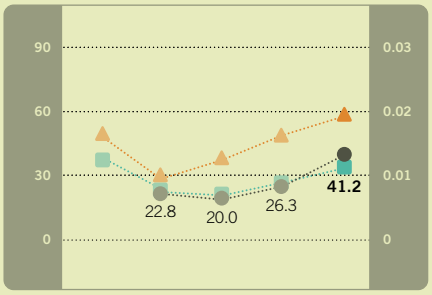
1 Relevant at Canadian operations only.

AIR QUALITY PERFORMANCE

New regulatory measures, finalization of which was pending at year-end, are likely to result in a need for significant pollution-control upgrades at two Catalyst operations. Proposed amendments to the U.S. Environmental Protection Agency's Maximum Achievable Control Technology rules for industrial boilers would require reductions in various emissions at Snowflake, most notably particulates. Similarly, Environment Canada's new Air Quality Management System may require reductions in sulphur oxide emissions associated with pulp production at Crofton. In both cases, requirements are expected to be finalized in 2012 with a compliance time frame of at least three years.

Total Dioxin and Furan Releases

(grams/year) (mg/adt)

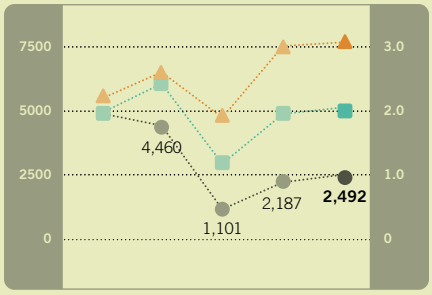


	07	08	09	10	11
Absolute (grams/year)	39.0	23.5	21.9	28.2	**42.5**
Performance Excluding Snowflake (grams/year)					
Intensity (mg/adt)	0.017	0.010	0.013	0.017	**0.025**

Results are heavily influenced by factors such as operating conditions and fuel characteristics and are often highly variable. All operation-specific emissions in 2011 were below a 0.1 ng/m³ TEQ Canadian federal standard applicable to power boilers installed since 2001 (even though all Catalyst boilers predate 2001).

Total Sulphur Oxides [1]

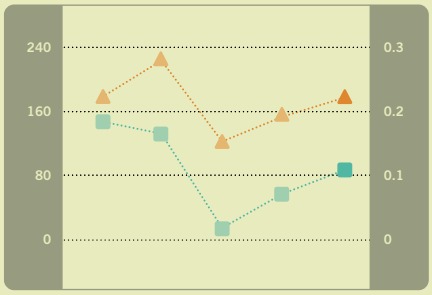
(tonnes/year) (kg/adt)



	07	08	09	10	11
Absolute (tonnes/year)	4,955	6,144	2,930	4,930	**5,193**
Performance Excluding Snowflake (tonnes/year)					
Intensity (kg/adt)	2.10	2.53	1.80	2.95	**3.01**

Total TRS [1] – Total Reduced Sulphur

(tonnes/year) (kg/adt)



	07	08	09	10	11
Absolute (tonnes/year)	154	138	17	61	**91**
Intensity (kg/adt)	0.23	0.29	0.16	0.20	**0.23**

Relevant at Crofton only, see discussion on facing page.

1 All figures based on actual test results; NPRI data (see page 38) may differ because it uses emission factors and includes other sources.

adt – Air-dried tonnes of product

Regulatory requirements for tracking and reporting of greenhouse gas emissions are currently limited to absolute (amount per year) scope 1 emissions (those produced directly by our own operations). On pages 26-27 and 33-34, we include additional disclosure on an intensity basis (amount per tonne of production), and relating to emissions associated with purchased energy (scope 2). We also provide an estimate of emissions associated with purchased supplies and the transportation of supplies and products (scope 3). Our added voluntary disclosure reflects strong stakeholder interest in industry performance relevant to climate change.

SOLID WASTE TO LANDFILL (BY MILL)

(cubic metres per air-dried tonne)	2011	2010	2009	2008	2007
Crofton	0.054	0.060	0.059	0.060	0.054
Port Alberni	0.100	0.072	0.074	0.072	0.067
Powell River	0.035	0.025	0.028	0.035	0.030
Snowflake (all figures are for full year)	0.269	0.260	0.210	0.355	0.222

AIR EMISSIONS (BY MILL)

	2011	2010	2009	2008	2007
Crofton					
Total GHGs as kg CO_2e/year (scope 1/direct)	139,466,000	140,582,000	112,063,000	162,866,000	149,920,000
Total GHGs as kg CO_2e/adt (scope 1/direct)	205	236	242	224	194
Total GHGs as kg CO_2e/year (scope 2/indirect)	25,961	29,845	29,382	25,324	25,307
Total GHGs as kg CO_2e/adt (scope 2/indirect)	38	50	63	35	33
Particulate matter kg/day	1,085	1,280	565	906	722
Particulate matter kg/adt	0.54	0.78	0.43	0.43	0.34
Sulphur Oxides kg/day	5,935	5,331	2,329	9,392	11,026
Sulphur Oxides kg/adt	3.00	3.24	1.79	4.45	5.20
TRS kg/day [1]	249	166	115	192	245
TRS kg/adt	0.230	0.197	0.164	0.180	0.211
Power Boiler dioxin ng/m^3 TEQ	0.03	0.03	0.02	0.03	0.09
Ambient TRS % compliance A level 24 hr average	84.5	95.3	97.3	99.1	97.7
Ambient PM2.5 average, ug/m^3 [2]	4.5	4.8	4.8	4.5	4.4
Port Alberni					
Total GHGs as kg CO_2e/year (scope 1/direct)	33,424,000	39,699,000	37,988,000	36,708,000	61,619,000
Total GHGs as kg CO_2e/adt (scope 1/direct)	107	126	130	136	215
Total GHGs as kg CO_2e/year (scope 2/indirect)	17,300	22,037	19,554	14,843	14,549
Total GHGs as kg CO_2e/adt (scope 2/indirect)	55	70	67	55	49
Particulate matter kg/day	20	28	32	20	40
Particulate matter kg/adt	0.021	0.030	0.036	0.025	0.043
Sulphur Oxides kg/day	589	526	484	427	477
Sulphur Oxides kg/adt	0.62	0.56	0.54	0.53	0.50
Power Boiler dioxin ng/m^3 TEQ	0.03	0.07	0.09	0.27	0.41
Ambient PM2.5 average, ug/m^3 [2]	7.9	–	–	–	–

1 TRS emissions are primarily a function of pulp production, which increased further in 2011. Compliance with ambient air-quality guidelines decreased, although there was no parallel increase in odour-related complaints from the community. Meteorological conditions can result in significantly different ambient readings even in the absence of significant changes in mill performance.

2 Ambient particulate levels (in the surrounding air, to which multiple sources contribute) are now reported relative to small-diameter particulates, as all Canadian mills have monitoring capacities in place. Performance compares to a provincial air-quality objective of 8 ug/m^3.

adt – Air-dried tonnes of product
ng – Nanogram
PM – Particulate matter
TEQ – Dioxin equivalent units
ug – Microgram

A complete glossary of terms and definitions is available at www.catalystpaper.com/products/glossary.

AIR EMISSIONS (BY MILL)

	2011	2010	2009	2008	2007
Powell River					
Total GHGs as kg CO_2e/year (scope 1/direct)	42,166,000	23,694,000	42,116,000	34,557,000	41,621,000
Total GHGs as kg CO_2e/adt (scope 1/direct)	95.1	51.2	91.7	77.3	90.7
Total GHGs as kg CO_2e/year (scope 2/indirect)	14,569	17,312	23,505	16,769	16,708
Total GHGs as kg CO_2e/adt (scope 2/indirect)	33	37	51	37	36
Particulate matter kg/day	13.1	7.3	54	42	33
Particulate matter kg/adt	0.01	0.01	0.04	0.03	0.03
Sulphur Oxides kg/day	302	134	313	277	189
Sulphur Oxides kg/adt	0.233	0.103	0.242	0.220	0.151
Power Boiler dioxin ng/m^3 TEQ	0.05	0.02	0.07	0.01	0.03
Ambient TRS % compliance A level 24 hr average	98.9	93.4	94.2	100	100
Ambient PM2.5 average, ug/m^3 [1]	1.5	1.9	2.5	2.1	2.1
Snowflake (all figures are for full year)					
Total GHGs as kg CO_2e/year (scope 1/direct) [2]	854,558,000	898,466,000	695,395,000	907,823,000	871,486,000
Total GHGs as kg CO_2e/adt (scope 1/direct)	2,961	3,074	2,995	2,264	1,961
Total GHGs as kg CO_2e/year (scope 2/indirect)	25,428	24,713	15,196	13,512	n/a
Total GHGs as kg CO_2e/adt (scope 2/indirect)	88	85	65	34	n/a
Particulate matter kg/day	270	348	472	345	267
Particulate matter kg/adt	0.33	0.43	0.53	0.31	0.21
Sulphur Oxides kg/day [3]	7,401	7,517	6,949	6,330	3,844
Sulphur Oxides kg/adt	9.10	9.31	7.86	5.76	3.07

1 Ambient particulate levels (in the surrounding air, to which multiple sources contribute) are now reported relative to small-diameter particulates, as all Canadian mills have monitoring capacities in place. Performance compares to a provincial air-quality objective of 8 ug/m^3.

2 Higher GHG intensity since 2008 reflects a calculation methodology change, as well as reduced power boiler efficiency after closure of a corrugated paperboard machine. Continued machine efficiency issues in 2011, and a changing product mix, also impacted intensity. The same factors have contributed to a similar water-use trend.

3 2010 figures updated to correct a calculation error. Elevated SO_2 levels in 2010 and 2011 reflect higher sulphur content in coal, as well as applicable emissions factors. Emissions factors are set annually based on test results obtained on a limited number of days and are, therefore, subject to variation due to factors such as operating conditions and fuel characteristics.

adt – Air-dried tonnes of product
ng – Nanogram
PM – Particulate matter
TEQ – Dioxin equivalent units
ug – Microgram

A complete glossary of terms and definitions is available at www.catalystpaper.com/products/glossary.

EFFLUENT (BY MILL)

	2011	2010	2009	2008	2007
Crofton					
TSS kg/day	2,889	2,259	1,373	3,095	2,731
TSS kg/adt	1.6	1.4	0.9	1.6	1.3
BOD kg/day [1]	1,726	831	530	1,012	864
BOD kg/adt	0.92	0.51	0.44	0.51	0.41
AOX kg/day	403	321	322	408	448
AOX kg/adt pulp	0.33	0.32	0.46	0.32	0.34
2378TCDD ppq	n/d	n/d	n/d	n/d	n/d
2378TCDF ppq	n/d	n/d	n/d	n/d	n/d
Trout toxicity % compliance	89	100	100	100	100
Port Alberni					
TSS kg/day	412	414	380	352	389
TSS kg/adt	0.5	0.5	0.5	0.5	0.5
BOD kg/day	280	270	190	290	305
BOD kg/adt	0.33	0.31	0.23	0.39	0.38
Trout toxicity % compliance	100	100	100	100	100
Powell River					
TSS kg/day	1,885	1,718	1,483	1,330	1,991
TSS kg/adt	1.5	1.4	1.0	1.1	1.6
BOD kg/day	705	661	652	532	797
BOD kg/adt	0.57	0.52	0.44	0.42	0.63
Trout toxicity % compliance	94.3	98.0	98.1	100	96.6
Snowflake (all figures are for full year)					
TSS kg/day [2]	3,983	2,941	1,256	4,009	2,893
TSS kg/adt	5.0	3.7	2.0	3.5	2.4

1 Increased BOD reflects in part the short-term impact of a caustic spill occurring early in the year (see page 39). Levels were also elevated beginning in September, but remained well within permit. The investigation of possible causes remained underway, and a declining trend in BOD levels was observed as this report was prepared in early 2012.

2 Increased TSS was a result of the disturbance of settled fibre in an effluent storage pond, which needed to be drained to repair a leak (see page 31).

adt – Air-dried tonnes of product
n/d – Non-detectable (test result below two parts per quadrillion)
2378TCDD, 2378TCDF – Specific dioxin and furan substances

A complete glossary of terms and definitions is available at www.catalystpaper.com/products/glossary.

WATER AND ENERGY USE (BY MILL)

	2011	2010	2009	2008	2007
Crofton [1]					
Water use m^3/adt	79	85	71	73	68
Fuel energy usage GJ	17,904,394	15,593,050	8,395,893	17,298,684	17,683,893
Fuel energy intensity GJ/adt	26.19	26.13	18.10	23.75	22.86
Electricity usage MWh	1,349,631	1,248,957	1,135,131	1,367,436	1,390,892
Electricity intensity MWh/adt [2]	1.98	1.77	2.26	1.58	1.49
Total energy usage excluding self-generated electricity GJ [3]	21,967,887	19,389,570	12,173,632	21,442,651	21,825,085
Total energy intensity excluding self-generated electricity GJ/adt	32.22	32.49	26.25	29.44	28.22
Port Alberni					
Water use m^3/adt	69	72	78	75	86
Fuel energy usage GJ	4,796,691	4,629,396	4,475,620	4,120,219	4,576,657
Fuel energy intensity GJ/adt	15.34	14.66	15.34	15.31	15.96
Electricity usage MWh	823,184	843,236	742,641	674,704	706,895
Electricity intensity MWh/adt	2.63	2.67	2.55	2.51	2.39
Total energy usage excluding self-generated electricity GJ [3]	7,504,517	7,462,787	6,989,651	6,549,153	6,957,431
Total energy intensity excluding self-generated electricity GJ/adt	24.00	23.64	23.96	24.33	23.48
Powell River					
Water use m^3/adt	75	71	73	79	82
Fuel energy usage GJ	6,642,139	6,187,485	5,947,653	5,928,542	6,325,759
Fuel energy intensity GJ/adt	14.99	13.37	12.96	13.25	13.79
Electricity usage MWh [4]	1,386,901	1,421,458	1,414,846	1,347,160	1,382,634
Electricity intensity MWh/adt	3.13	3.07	3.08	3.01	3.01
Total energy usage excluding self-generated electricity GJ [3]	11,137,715	10,904,853	10,646,636	19,595,812	10,988,159
Total energy intensity excluding self-generated electricity GJ/adt	25.13	23.57	23.19	23.69	23.95
Snowflake (all figures are for full year)					
Water use m^3/adt	64	61	62	45	34
Fuel energy usage GJ	7,480,193	7,783,613	5,959,461	8,249,652	8,232,088
Fuel energy intensity GJ/adt	25.92	26.63	25.68	20.58	18.52
Electricity usage MWh	372,847	375,247	269,302	382,974	423,052
Electricity intensity MWh/adt	1.29	1.28	1.16	0.96	0.95
Total energy usage excluding self-generated electricity GJ [3]	7,678,762	7,976,598	6,057,494	8,379,252	8,291,632
Total energy intensity excluding self-generated electricity GJ/adt	26.61	27.29	26.10	20.90	18.66

1 Comparability with previous water and energy use performance at Crofton is limited, since 2011 was the mill's first year of operation at its current configuration (two paper machines and two pulp lines). Outcomes of a water audit (see page 24) and a sustained focus on energy reduction are expected to drive reductions in 2012 and beyond.

2 2007-2010 figures updated to reflect a calculation adjustment.

3 A portion of fuel energy is used to self-generate some of the electricity used.

4 2010 figures updated to reflect a calculation adjustment.

adt – Air-dried tonnes of product
GJ – Gigajoules
MWh – Megawatt-hours

Fuel energy measures include all purchased fuels and self-generated biomass (black liquor); electricity measures include all purchased and self-generated electricity.

A complete glossary of terms and definitions is available at www.catalystpaper.com/products/glossary.

Snowflake Energy Use – Comparative Considerations

Snowflake's fuel energy intensity is high compared with most recycling mills, in large part because Snowflake self-generates almost all of the energy it uses. Its intensity measure, therefore, includes use and loss of energy at the generation stage, which are not included in the more typical scenario of a mill that buys energy generated elsewhere. Of total fuel energy use per tonne of production at Snowflake (25.92 GJ in 2011) only roughly 45 per cent is used for paper production. Snowflake's energy self-sufficiency also affects its carbon intensity, as it results in much higher scope 1 or direct emissions and much lower scope 2 emissions (associated with purchased electricity).

TOTAL KEY MATERIALS USED AS TONNES

	2011	2010	2009	2008	2007
Water [1]	142,416,387	141,164,553	132,107,490	176,518,631	175,027,227
Wood chips and pulping logs	1,652,199	1,558,187	1,094,795	2,207,406	2,304,028
Hog fuel	680,023	682,279	606,871	541,421	759,933
Fossil fuels [2]	407,176	407,749	337,250	368,684	127,928
Old newspapers and magazines	334,443	286,566	456,751	530,225	170,272
Precipitated Calcium Carbonate	123,651	122,468	119,825	117,288	116,391
Clay	75,307	64,692	60,129	77,035	81,057
Oxygen	57,832	62,432	46,282	92,869	103,684
Hydrogen Peroxide	17,911	18,143	21,928	29,198	28,155
Sodium Hydroxide	30,803	30,764	23,084	47,815	53,778
Sodium Chlorate	18,425	16,208	5,730	29,227	34,950
Sulphuric Acid	15,593	13,605	7,387	23,822	27,888
Silicate	11,217	11,599	16,562	18,973	16,301
Starch	10,566	9,826	10,137	13,409	13,714
Sulphur Dioxide	8,589	9,079	10,460	11,168	12,771

1 Water use figures in this table include treated effluent, as well as discharges of cooling and storm water; consistent with standard industry practice, water use as shown in the key facts and figures (and as used to calculate water-use intensity) includes only treated effluent.

2 Fossil fuels are typically reported as gigajoules of heating value (and are reported on this basis on page 21); however, weights – while not reflective of the true heat content of the fuels basket for each year – are recommended for inclusion as part of Global Reporting Initiative reporting.

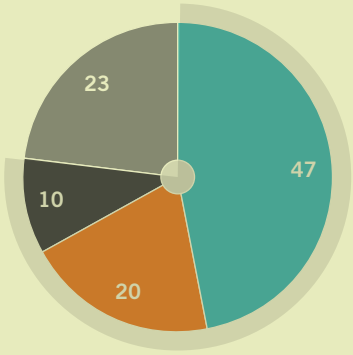
A complete glossary of terms and definitions is available at www.catalystpaper.com/products/glossary.

PRODUCTION

(tonnes of product)	2011	2010	2009	2008	2007
Crofton	681,910	596,752	463,782	728,333	773,407
Elk Falls	–	–	53,048	565,762	690,690
Paper Recycling	–	3,774	125,266	130,880	142,416
Port Alberni	312,675	315,689	291,757	269,177	296,335
Powell River	443,242	462,669	459,089	447,314	458,704
Snowflake (all figures are for full year)	288,566	292,256	232,106	400,898	444,412

Materials Sourced from Waste

(% 2011)



- WOOD CHIPS AND PULPING LOGS
- HOG FUEL
- OLD NEWSPAPERS AND MAGAZINES
- OTHER MATERIALS

77% TOTAL SOURCED FROM WASTE

Total excludes water consumption and includes 31,730 tonnes of other materials (not listed above) used in smaller amounts.

REPORTED NPRI EMISSIONS

(not including speciated PAHs and Part 5 VOCs)

(tonnes)	2010	2009	2008	2007	2006
Carbon Monoxide	2,490	1,755	2,924	3,137	3,249
Sulphur Dioxide	1,941	1,109	4,242	5,034	5,037
Nitrogen Oxides	1,652	1,409	2,399	2,353	2,587
Hydrochloric Acid*	917	551	841	953	988
Volatile Organic Compounds (VOCs) – total	876	621	1,273	1,356	1,388
Total particulate	499	245	801	750	1,043
Methanol*	488	308	729	649	674
PM 10	429	210	667	653	685
PM 2.5	305	150	471	529	472
Nitrate Ion	283	272	201	190	218
Phosphorus	257	285	449	591	619
Manganese*	176	185	383	276	375
Total reduced sulphur	173	70	201	276	–
Chlorine Dioxide	108	41	115	81	13
Ammonia	98	68	261	376	356
Hydrogen Sulphide	77	36	74	82	123
Zinc	43	51	56	63	74
Sulfuric Acid*	38	34	41	12	12
Phenol	18	–	–	–	–
Acetaldehyde*	15	–	–	–	–
Barium Compounds	9	14	22	–	–
(kilograms)					
Lead*	2,819	3,126	4,021	3,078	3,023
Arsenic	707	960	925	1,353	1,114
Sum of PAHs (17)	245	134	541	685	564
Hexavalent Chromium Compounds	234	320	592	882	502
Cadmium	104	131	219	244	275
Mercury*	23	34	28	5	3
(grams)					
Hexachlorobenzene (HCB)	204	175	414	579	750
Dioxins and Furans*	28	31	25	42	57

* 2008 figures include full-year releases from Snowflake.

Legislation in both Canada and the U.S. requires facilities such as Catalyst's to annually report releases of any of a large number of substances if they exceed defined thresholds, including releases to air, water and land, and volumes sent for disposal or recycling. Reported volumes are based on actual measurement or estimates arrived at using defensible methodologies.

This information is compiled by Environment Canada in the National Pollutant Release Inventory (NPRI), and by the U.S. Environmental Protection Agency in the Toxics Release Inventory (TRI), and is available via www.ec.gc.ca/inrp-npri and www.epa.gov/tri.

The table above shows the combined total of all releases reported to the NPRI and TRI for all of Catalyst's operations. Full-year releases from Snowflake are included for 2008 (see measures marked with an asterisk*), notwithstanding the acquisition date of April 10. Since releases are reported in the spring for the previous calendar year, 2011 data were not yet available when this report was prepared.

Data are not included [–] in instances where reporting was not required by the regulator. Speciated PAHs, while reported individually to Environment Canada, are reflected in the table above as part of the "Sum of PAHs".

A complete glossary of terms and definitions is available at www.catalystpaper.com/products/glossary.

APPENDIX 1

CROFTON

NON-COMPLIANCES

- A spill of 54,000 gallons of caustic (50 per cent concentration) was contained within the effluent collection system, but resulted in increased pH levels and reduced secondary effluent treatment efficiency over three days, with corresponding issues with toxicity* and BOD levels – see additional information below (constituted two non-compliances, due to duration of incident).
- Bleach plant chlorine dioxide emissions remained above a permit limit set in 2007 (set based on incorrect measurement); regulators indicated a permit amendment will not be accepted, which will require improvements in chemical addition controls and potentially additional emissions-scrubbing equipment; an action plan will be finalized in 2012 (4 non-compliances, one per quarter).
- Required monitoring of a kraft mill TRS source was interrupted while it was being repaired, resulting in a non-compliance due to missed quarterly monitoring.
- Permitted lime kiln air flow volumes were exceeded due to use of higher fan speeds to address lime-mud quality issues, although this resulted in no additional emissions.
- Mechanical failure of an effluent sampler led to missed collection of a daily composite sample and an administrative non-compliance; a backup sampler has been installed.
- A toxicity-related non-compliance occurred in November.* The relevant cooling water stream was diverted to the effluent treatment system and additional testing and evaluation were pending at year-end.

REPORTABLE EVENTS

- Removal of improperly operating light standards in late 2010 resulted in a reportable event recorded in 2011 due to the disturbance of osprey nests built on the standards; Crofton has an approved plan to erect platforms designed for osprey nesting use in 2012.
- Release of 282 kg of non-ozone-depleting refrigerant and fire suppressant (six events).

PORT ALBERNI

No non-compliances or reportable events in 2011.

POWELL RIVER

NON-COMPLIANCES

- Five toxicity-related non-compliances occurred.* In three incidents, the source was not definitively identified and subsequent testing resulted in no mortalities of the test species.
- The other two incidents were of more concern because they were first-ever consecutive toxicity findings at the same stormwater outfall. A partially plugged cooling waterline was found to be resulting in introduction of chlorinated water, and there were no further mortalities after this was corrected in November. While the chlorine concentrations caused mortality under testing conditions, they were less than concentrations in tap water and are not believed to have deleteriously impacted the marine environment.
- Procedural errors led to two failures to collect effluent samples, resulting in four administrative non-compliances (each non-collection period extended over two days).

REPORTABLE EVENTS

- 820 litres of untreated effluent was released when a containment area's capacity was exceeded during maintenance shutdown preparations. Procedural changes were identified to prevent recurrence.
- An unknown volume of untreated leachate was released (due to a hole near the end of a capped pipe) during reconfiguration of collection infrastructure. Although reported as a spill, subsequent testing confirmed the leachate (mainly rainwater) was non-toxic.
- Release of 21 kg of ozone-depleting refrigerant.

The caustic release was the most serious of any non-compliance during 2011, and resulted in a notice of non-compliance and warning letter from regulators. There was a combination of causative factors, including an improperly labelled storage-tank valve and a pH meter failure. After extensive investigation, a range of actions were taken to reduce the likelihood of caustic or other spills during and after barge off-loading, and to improve detection and response capabilities.

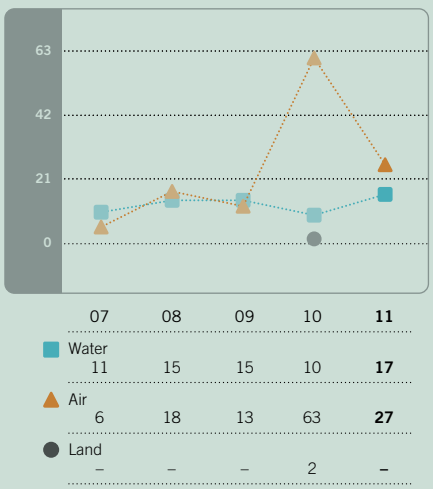
* Based on tests involving exposure of sensitive freshwater species to undiluted samples of either effluent or cooling water.

SNOWFLAKE

Snowflake continued to have no environmental permit non-compliances deemed significant by regulators, but two types of events have been internally classified as being of concern in light of frequency and significance:

- Power boiler emissions exceeded air opacity guidelines 12 times, primarily during startups and shutdowns or due to equipment malfunctions. Exceedances were down from 36 in 2010 due in part to more conservative operating procedures, and further corrective actions were identified.
- Power boiler emissions exceeded SO_2 guidelines once due to an electrical spike (originating at the separately owned energy-generation facility) that caused scrubber pumps to shut down. Revised procedures are in place to deal with any recurrence.

Non-compliance Events by Emissions
(corporate wide)



Two non-compliances occurred at the closed **ELK FALLS** mill, consisting of missed rainbow trout toxicity tests resulting from an administrative error when effluent samples were shipped. Concurrent daphnia magna testing detected no toxicity.

Reportable releases (>10 kg) of ozone-depleting substances (ODS) at Canadian mills totalled 21 kg in 2011, compared to 46 kg in 2010. Consistent tracking of ODS releases below the 10 kg threshold began at Canadian mills in 2011, in accordance with new greenhouse gas-related regulations. Snowflake had total ODS releases of 217 kg, compared to 373 kg in 2010, but none were reportable due to prompt mill responses. Port Alberni completed the phase-out of all equipment containing larger volumes of ODS in 2011, and phase-out continued at all other mills. The pending installation at Crofton of large non-ODS chilling units from the closed Elk Falls mill will accelerate the process there.

NON-COMPLIANCES AND EVENTS

	Crofton	Elk Falls	Port Alberni	Powell River	Snowflake
2011	**17**	**2**	**0**	**12**	**13**
2010	21	3	3	5	39
2009	8	2	4	12	0
2008	12	5	1	14	0
2007	5	4	2	5	–

APPENDIX 2

The following information relates to miscellaneous aspects of recommended performance disclosure that are not addressed as stand-alone topics elsewhere in this report.

INFRASTRUCTURE AND SERVICES OF PUBLIC BENEFIT

Catalyst manages water-management infrastructure on Vancouver Island that serves public interests, most notably the weir that regulates water flow from Cowichan Lake to the Cowichan River. We also supply drinking water to the community of Crofton at cost. While an arrangement has not been concluded, there is potential for infrastructure co-use at Powell River (see page 17).

BIODIVERSITY IMPACTS

Catalyst does not own or manage any forests, but addresses the potential biodiversity impacts of its extensive fibre purchases through a preference for certified supplies and active engagement in multi-stakeholder conservation efforts in British Columbia's Great Bear Rainforest (see page 23). We manage potential impacts of our manufacturing operations through regulatory compliance and voluntary initiatives such as our Clean Production Initiative (see page 27). Outcomes such as Environmental Effects Monitoring program findings (see page 31) confirm a declining scope of impacts in recent years.

MINORITY GROUP MEMBERSHIP

Catalyst does not track corporate-wide trends relating to minority group membership, due partly to privacy-related regulation. We are committed to inclusive workplaces as evidenced by policies on matters such as employment, and pay equity and harassment.

FREEDOM OF ASSOCIATION, CHILD LABOUR, FORCED LABOUR

Freedom of association, including the right to engage in collective bargaining, is legally protected in our operating jurisdictions, which are also low-risk locations for either child or forced labour. Production facility inspections are among the safeguards we use when considering business relationships with new suppliers in jurisdictions where there may be a higher risk of such practices. No such new relationships were established in 2011.

CORRUPTION

Catalyst's Code of Corporate Ethics and Behaviour contains specific anti-corruption provisions relating to bribery, prohibited benefits and conflicts of interest.

FINES AND NON-MONETARY SANCTIONS

Catalyst was not subject to any significant fines or non-monetary sanctions for non-compliance with laws or regulations during 2011, with the exception of penalties and interest in connection with disputed property taxes (see page 17).

PUBLIC POLICY AND GOVERNMENT

Catalyst is a member of associations that collectively advocate for competitive business conditions in our operating jurisdictions. We undertake targeted engagement when Catalyst-specific interests may be significantly impacted, in contexts such as greenhouse gas regulation. Some of our Canadian operations surveyed local municipal election candidates on relevant topics in 2011, in response to expressed employee interest.

Two energy-related projects were fully financed with funding from the Canadian federal government (see "Green Transformation" page 22). We received incentive funding from British Columbia's public electricity utility for energy-conservation initiatives, while separate public funding supported an energy-related pilot project at Crofton (see "Energy from Waste" page 22). We received no other significant government financial assistance in 2011. Political contributions consisted only of minor forms of support such as event ticket purchases.

PRODUCT STEWARDSHIP AND SAFETY

Increased paper recovery for recycling is among the objectives Catalyst hopes to advance through its engagement with GreenBlue (see page 10). We do not engage in product stewardship with either a safety or hazardous-materials focus since our products are benign and our customers well versed in their handling and use.

UN GLOBAL COMPACT AND GLOBAL REPORTING INITIATIVE INDEX

This report constitutes Catalyst's Communication on Progress as a signatory to the United Nations Global Compact (UNGC), and was developed using the G3 Guidelines of the Global Reporting Initiative (GRI). These are, respectively, the world's largest corporate citizenship initiative and the world's most widely used sustainability reporting framework. This table relates report sections to UNGC principles and GRI content. A detailed index encompassing Catalyst's full disclosure process and citing specific GRI indicators is available at www.catalystpaper.com/investors/sustainability-reports.

THE GLOBAL COMPACT WE SUPPORT

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact.**

We welcome feedback on its contents.

W

		UNGC				GRI									
Report Section	Pages	Human Rights	Labour Standards	Environment	Anti-corruption	Strategy and Analysis	Organizational Profile	Report Parameters	Governance	Economic	Environmental	Labour Practices	Human Rights	Society	Product Responsibility
Introductory Materials	1-3					●	●	●							
Message from the President	4-5					●									
Stakeholder Engagement	8								●						
Governance & Management Systems	9			●	●	●			●						
GreenBlue Initiative	10			●							●				●
No Compromises on Safety	11											●			
Engaging Today's Workforce	12						●					●			
Developing Tomorrow's Workforce	13											●			
Compensation & Representation	14		●							●		●			
Our Economic Footprint	15									●					
Communities, Taxation	16-17									●					
First Nations	18													●	
Customers	19-20			●						●	●				●
Energy	21-22			●						●	●				
Wood Fibre	23			●						●	●				
Water Use	24			●						●	●				
Greenhouse Gases	25-27			●						●	●				
Particulate Emissions	28			●						●	●				
Solid Waste	29			●						●	●				
Production, Procurement	30			●						●	●				
Environmental Data Tables	31-38			●							●				
Appendix 1	39-40										●				
Appendix 2	41	●	●	●	●				●	●	●	●	●	●	●

CONTACT US

CATALYST PAPER CORPORATION

2nd Floor, 3600 Lysander Lane
Richmond, B.C. V7B 1C3
604-247-4400

Visit us online at **www.catalystpaper.com**

KEVIN J. CLARKE

President and Chief Executive Officer

DAVID ADDERLEY

Vice-President and General Counsel

BRIAN BAARDA

Vice-President, Finance
and Chief Financial Officer

STEVE BONIFERRO

Senior Vice-President,
Human Resources

LYN BROWN

Vice-President, Marketing
and Corporate Responsibility

TOM CROWLEY

Senior Vice-President,
Sales and Marketing

ROBERT H. LINDSTROM

Vice-President, Supply Chain,
Energy and Information Technology

ROBERT L. STEPUSIN

Senior Vice-President,
Business Improvement

DREW KILBACK

Director, Risk Management
and Environment

COMMUNITY AND ENVIRONMENTAL LIAISON

CROFTON

Rob Belanger, General Manager
Brian Houle, Manager, Environment
250-246-6100

POWELL RIVER

Stew Gibson, Acting General Manager
Sarah Barkowski, Manager, Environment
604-483-3722

PORT ALBERNI

Tom Paisley, General Manager
Larry Cross, Manager, Environment
250-723-2161

SNOWFLAKE

Murray Hewitt, General Manager
Fred Mollenhauer, Senior Process Engineer
928-536-4314

This report contains forward-looking statements. Forward-looking statements are statements, other than statements of historical fact, that address or discuss activities, events or developments that Catalyst Paper expects or anticipates may occur in the future. These forward-looking statements can be identified by the use of words such as “anticipate”, “could”, “expect”, “seek”, “may”, “likely”, “intend”, “will”, “believe” and similar expressions or the negative thereof. These forward-looking statements reflect management’s current views and are based on certain assumptions and factors management believes are appropriate in the circumstances, including assumptions that there will be no material change to the regulatory environment in which the company operates, capital budgeted for certain goals will be available, and existing relationships with stakeholders will be maintained. Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur nor, if they do occur, what benefit Catalyst will derive from them. No forward-looking statement is a guarantee of future results. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including technological and regulatory changes, cost constraints, Catalyst’s ability to successfully obtain operational and environmental performance improvements, and other factors beyond its control. Catalyst disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, B.C. V7B 1C3
604-247-4400
www.catalystpaper.com

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% renewable	90
Emissions	
Greenhouse gas (g)	10*
Air particulate (mg)	2
Effluent BOD (mg)	30
Solid waste (cm^3)	9

* Offset to zero

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The Sage designation verifies that this paper is certified (Programme for the Endorsement of Forest Certification) as containing 100 per cent fibre from sustainability managed forests, that there were no net carbon emissions during its manufacture, and that detailed mill-level environmental performance data are available via GreenBlue's Environmental Paper Assessment Tool (EPAT). We also contribute $1 for every tonne of Sage product sold to support GreenBlue's activities.

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