

CATALYST PAPER 2012 SUSTAINABILITY REPORT

OUR TOMORROW:

- KEY FACTS AND FIGURES 03
- MESSAGE FROM THE PRESIDENT 04
- OUR TOMORROW: BRINGING THE PIECES TOGETHER 06
 - EMPLOYEES AND COMMUNITIES 08
 - CUSTOMERS AND COMPETITIVENESS 20
 - RESOURCE USE 26
 - CLEAN PRODUCTION 34
 - ENVIRONMENTAL DATA TABLES 40
 - REGULATORY COMPLIANCE 48
 - UNGC/GRI INDEX 50

Our manufacturing facilities have long histories and are economic anchors in the coastal communities where they're located.

READ MORE ONLINE ABOUT OUR MILLS > www.catalystpaper.com/about/our-facilities

WHAT IS THIS?

QR or "quick response" codes are digital shortcuts. After downloading a reader on your smartphone or tablet, snapping a picture of the code will take you directly to a specific location on the web. They're a good example of the connectivity between print and digital – two vital components of the modern media mix.

CATALYST PAPER MANUFACTURES DIVERSE SPECIALTY MECHANICAL 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, located in British Columbia (B.C.), Catalyst has a combined annual production capacity of 1.5 million tonnes. Company headquarters are in Richmond, British Columbia, Canada. Effective January 7, 2013, Catalyst shares trade on the Toronto Stock Exchange (TSX) under the symbol CYT.

EDINSON MAHECHA

Counts the megawatts. As site energy manager at Crofton he drives projects which, in 2012, helped the mill to produce more pulp and paper while using less electricity.

STARTS TODAY ...

ABOUT THIS REPORT

This is Catalyst's 10th sustainability report and follows the same format as last year's. Our approach to managing each of the major categories of indicators reported on is discussed in an online appendix ("GRI Index"). We self-declare our disclosure – including information on our website – to Global Reporting Initiative (GRI) Application Level B.

Report content is guided by our assessment of which aspects of our performance are of strongest interest to our stakeholders and relevance to our business success. This is informed by our ongoing stakeholder interactions, and monitoring of our operating environment and sustainability-related trends, benchmarks and reporting best practices.

This report covers the period January 1 to December 31, 2012, and relates to all of Catalyst's wholly owned operations and worldwide sales reported in Canadian currency. While reporting scope and metrics are largely unchanged, there were significant changes in Catalyst's ownership, as indicated in the discussion of our restructuring. The Snowflake mill, acquired by Catalyst in April 2008, was permanently closed on September 30, 2012, and its sale completed in January 2013.

This report also serves as our Communication on Progress as a signatory to the United Nations Global Compact, our continued support for which we affirm (see also page 50).

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





www.catalystpaper.com/about/stance
A seven-point operating philosophy guides our efforts to continually meet the high expectations of our customers, investors, employees, communities and other stakeholders.

A full overview of our stakeholder landscape – including the groups to whom we believe this report to be of interest – is available in the GRI Index found on our website.

OUR OPERATING • PHILOSOPHY ELEMENTS •



FINANCIAL

PERFORMANCE

SAFETY AND

STEWARDSHIP

ENVIRONMENTAL



Ç



CUSTOMER

CORPORATE GOVERNANCE

A new seven-member board of directors took office in September 2012, when Catalyst emerged from restructuring under new ownership (with the chief executive officer continuing as a member). The board provides high-level stewardship, oversees management, and works to preserve and enhance shareholder value while considering the interests of all key stakeholders.

Catalyst's shares ceased to trade publicly during its restructuring, but the company continued to follow governance and disclosure best practices, and its new common shares began trading on the Toronto Stock Exchange on January 7, 2013 (CYT).

PARTNERSHIPS + STAKEHOLDERS

Technical expertise, alternative perspectives, constructive criticism and a shared commitment to well-balanced outcomes – these are the value adds we look for when engaging in formal partnerships and stakeholder forums. Among the key relationships that we sustained and initiated in 2012 were:

COUNCIL FOR CLEAN CAPITALISM

Along with select Canadian corporations – all acknowledged sustainability leaders – we became a founding member of this CEO-level initiative launched by Corporate Knights. The Council's aim is to better align economic incentives, in areas such as capital availability and tax measures, with responsible corporate behaviour. It will pursue a small number of specific policy objectives each year.



www.cleancapitalism.com A small group of prominent and forward-looking companies make up the newly launched Council for Clean Capitalism.

STRUCTURE

The chairman and all but one other board member at year end (the chief executive officer) were independent. The board has three permanent committees: Audit; Governance, Human Resources and Compensation; and Environment, Health and Safety (EHS). The EHS Committee monitors compliance with principles and policies relating to social responsibility, and reviews and approves annual sustainability reports.

PERFORMANCE

The Governance Committee plans the board's membership to ensure an appropriate mix of expertise, establishes ongoing professional development opportunities for directors, and evaluates governance effectiveness annually.

COAST FOREST CONSERVATION INITIATIVE

This important vehicle for partnering with key suppliers and collaborating with environmental groups made further advancements relating to forest management in the Great Bear Rainforest. (See page 31.)

GREENBLUE

The Forest Products Working Group draws together prominent North American paper supply-chain participants and, in 2012, developed science-based procurement guidelines for sustainable paper products. GreenBlue works with business to incorporate life-cycle principles into product design, and receives \$1 from every tonne of environmentally preferred Sage papers that Catalyst sells. It also manages the

COMMUNICATION "NEUTRON MICROSCOPE THEORY"

PERSONAL ACCOUNTABILITY

FOCUS

The board – along with officers and employees of Catalyst – is subject to the provisions of a Code of Corporate Ethics and Behaviours which addresses matters such as conflict of interest.

ACCESSIBILITY

Employees have access to an anonymous phone line by which potential code violations and other concerns can be brought directly to the attention of the Audit Committee (no such reports were made in 2012). Procedures also exist by which other interested parties can communicate confidentially with the company's directors.

More information on key policies and oversight responsibilities relating to management of issues discussed in this report is available in the GRI Index found on our website.

Environmental Paper Assessment Tool (EPAT), which is one of the key means by which we ensure transparency on the footprint of our products.

WORLD WILDLIFE FUND CANADA

2012 marked 10 years since the signing of our first partnership agreement with World Wildlife Fund Canada (WWF). Over that decade, WWF guidance and expertise has helped us make and validate progress on greenhouse gas (GHG) reductions, wood fibre certification and de-toxification of our production. And from a WWF perspective, it has allowed for "road testing" and better insights on the practical implications of conservation efforts.

"We all have to come to grips, and soon, with interconnected ecological, social, and economic issues. As just one example, ecosystem decline is already resulting in scarcity and higher costs for raw materials in many sectors. These aren't problems that get solved by people fighting over their share; they are problems that get solved by people sitting down together prepared to talk, to listen, to take risks, to support one another, and to tackle root causes rather than surface problems. In this sense, the Catalyst-WWF partnership is a small example of the big work ahead."

DARCY DOBELL, VICE PRESIDENT, CONSERVATION & PACIFIC, WWF CANADA

TODAY'S PAPER IS A RESPONSIBLE CHOICE

Catalyst has been widely recognized for its environmental performance and social responsibility.

greenliving ECCR EXCR EXC Re



In 2012, Catalyst was named one of the 50 Best Corporate Citizens in Canada by Corporate Knights magazine for the sixth consecutive time. We also received an Excellence in Corporate Responsibility Award from Green Living Enterprises for the second consecutive time. This specifically recognized the transparent and socially responsible way in which we carried out a major restructuring in 2012.

02: CATALYST PAPER 2012 SUSTAINABILITY REPORT

KEY FACTS AND FIGURES

	2012	2011	2010
SOCIAL			
Medical incident frequency ¹ Lost-time incident frequency ¹ Employee population ² Payroll (\$ millions) ³	4.04 1.71 1,592 206	4.15 1.73 1,877 250	5.09 2.71 1,803 246
ECONOMIC (\$ millions, unless otherwise noted)			
Total taxes paid ⁴ Total sales ⁵ Net earnings (loss) attributable to company ^{5, 6} Market capitalization ⁷ Adjusted EBITDA (before restructuring costs) ⁵ Adjusted EBITDA (before restructuring costs) as % of sales ⁵	20 1,058.2 583.2 29 60.7 5.7	23 1,079.7 (974.0) 13 68.7 6.4	28 1,051.4 (396.9) 90 77.9 7.4
INPUTS (usage)			
Water (m ³) Fuel energy ⁸ Electrical energy ⁹ Wood chips, pulp logs, old newspapers (tonnes)	119,534,178 35,905,617 3,839,724 1,918,165	127,361,988 36,823,417 3,932,563 1,986,642	124,277,821 34,195,858 3,895,426 1,844,753
OUTPUTS (tonnes, unless otherwise noted)			
Greenhouse gas emissions (carbon dioxide equivalency - CO ₂ e) ¹⁰ Total reduced sulphur (TRS) emissions ¹¹ Particulate emissions ¹¹ (see page 38) Biochemical oxygen demand (BOD) Total suspended solids (TSS) Solid waste to landfill (m ³) (see page 30)	877,865 78 584 971 3,952 282,642	1,071,680 91 506 990 3,347 161,102	1,102,574 61 607 644 2,942 148,255

2012 PERFORMANCE: HOW IT STACKS UP

Changes in inputs and outputs reflect in part changes in production (see page 46); of particular note in 2012 was the Snowflake mill closure at the end of Q3.

1 Incidents per 200,000 hours worked; 2011 figures updated to reflect post year-end adjustments based on injury progression/duration.

- 2 Active employees at year-end, excluding vacancies. Includes Snowflake.
- 3 Inclusive of benefits, exclusive of restructuring costs (severance). Includes Snowflake.
- 4 Includes property taxes, B.C. carbon tax, and sales, use, income and logging taxes.
- 5 Excludes the Snowflake mill's results which have been reclassified as discontinued operations; losses from discontinued operations, net of tax, are shown separately from continuing operations in the consolidated statements of earnings (loss) in our annual consolidated financial statements for the years ended December 31, 2012, 2011 and 2010.
- 6 2012 and 2011 results were impacted by one-time, non-cash accounting adjustments.
- 7 Based on opening share value as of re-listing on TSX on January 7, 2013.
- 8 Gigajoules (GJ) includes fossil fuels and renewables.
- 9 Megawatt-hours (MWh) includes purchased and self-generated.
- 10 2011 figure updated to reflect a calculation adjustment.
- 11 Based on actual test results; National Pollutant Release Inventory (NPRI) data may differ due to use of emission factors and inclusion of other sources, see page 47.

TODAY'S PAPER IS HERE TO STAY

MESSAGE FROM THE PRESIDENT AND CEO

Our primary focus in 2012 was to address imminent threats to Catalyst Paper's financial sustainability and to maintain our company as a going concern. We saw a compelling business rationale for doing so, and were further motivated by our important role in our operating communities and by our demonstrated success in continually reducing environmental impacts.

We entered creditor protection in January 2012 – among the last large North American paper and pulp producers to do so. And we were the quickest among our peers to complete the process, exiting creditor protection in September of the same year. The path from there to here involved intense activity and often uncertain outcomes for Catalyst and all its stakeholders.

But we navigated it successfully and maintained commitments to transparency, dialogue, and the pursuit of a sound balance among all stakeholder interests. And at the end of it, we are well positioned for a competitive and sustainable tomorrow that starts today.



Many of our key 2012 outcomes are most obviously measured in dollar terms. But our vision is broader, and informed by the knowledge that the stringency of environmental and other non-financial performance expectations continues to grow.

We will work to meet those expectations – not only from a better cost and capital footing – but with the benefit of a unique combination of strengths relating to inputs, manufacturing platform, product range, customer relationships, stakeholder partnerships, and employee expertise.

THANKS WHERE DUE

Many of the outcomes reported on here are testament to the incredibly hard work of the leadership team, and to the sustained focus of people throughout Catalyst. I was struck by how effectively people continued to deliver on the many accountabilities that make it possible for us to serve our customers well.

Employees not only kept the business running smoothly, but stepped up in response to the need for significant adaptation and change. So too did our creditors, retirees, operating communities, vendors and government partners. A successful restructuring was simply not within the company's power alone to achieve, and I would like to thank everyone involved for their co-operative engagement and noteworthy contributions.

I would like to particularly acknowledge the efforts of everyone at our former operation at Snowflake. It became clear during our restructuring that papermaking did not have a viable future at this now-closed mill. But this was not due to lack of effort on the part of employees, unions and other stakeholders from whom we had exceptional support in our efforts to make Snowflake profitable.

THE RESULTS OF THE YEAR

Key financial outcomes of the restructuring are summarized on the facing page, and covered in detail in our annual report. Social and environmental performance also reflects the exceptional circumstances of the year. The uncertainties of the year likely contributed, for example, to safety results that continued to fall short of where they need to be.

Yet the impact of restructuring was not as extensive as might have been expected. We completed the process without any loss of customers. And we are pleased to have

OUR KEY RESTRUCTURING OUTCOMES

60% DEBT REDUCTION

- > US\$390 million (60%) debt reduction
- > Approximate \$70 million reduction in annual interest and other cash costs
- > Competitive bond and credit facility terms going forward
- > New ownership and board of directors
- > New common shares listed on Toronto Stock Exchange

recruited 200 new employees in 2012, which we take as a strong affirmation that many people share our belief in a solid future for the paper industry.

Environmental performance also remained well embedded in our operating philosophy. And while 2012 was not a year for major investments or new initiatives, it was one of sustained focus on issues such as greenhouse gases and energy, and of further progress in areas such as water conservation. And we maintained a broader supply-chain focus through, among other efforts, promotion of responsible forest management in the Great Bear Rainforest and beyond.

A SOLID FOUNDATION

Going forward, we will continue to improve and leverage environmental performance at our British Columbia mills. We are situated in a region of well-managed and high-quality forest resources, with a relative abundance of low-carbon energy, and efficient transportation links to key global markets. This gives us credibility and a market edge in satisfying the sustainability criteria that are integrated in the purchasing decisions of an ever-expanding range of customers.

Market conditions remain challenging. But we will continue to innovate and expand our broad suite of paper products – aligning production with end uses where print has lasting advantages, and where market dynamics play to our environmental and operational strengths. I was pleased to become personally engaged with the Council for Clean Capitalism launched in 2012. The mandate is ambitious in seeking to better align economic incentives with responsible corporate behaviour. Success could better secure the future of well-managed companies and extend corporate responsibility far more broadly into the world of commerce.

We are guided at Catalyst by the reality that people, not machines, make paper. In 2013, we will reinvigorate our shared commitment to achieving world-class safety performance. With sweeping demographic changes transforming our workplace and many other sectors, we also recognize that we must compete hard to recruit new employees for the highly skilled roles in our business.

While our restructuring is complete, our commitment to adaptation is a constant. We anticipate further change and realignment of our industry. Building on our 100-year history, in the months ahead Catalyst is poised to play an active role in this transformation as the effects of new media, new economies, new supply chains, and new social expectations continue to play out.

KEVIN J. CLARKE President and Chief Executive Officer



OUR TOMORROW: BRINGING THE PIECES TOGETHER

Our 2012 restructuring significantly reduced our debt and better aligned our operating costs with competitive realities. It was a result of outstanding effort on the part of people across the company, but wasn't achieved easily or in isolation.

As is typical in a restructuring, existing shareholders lost the full value of their investment. Tough decisions also had to be made about the shape of the company going forward, including a mill closure.

But we believe that, on balance, the outcome we arrived at was the best one available for the largest number of our stakeholders. It became possible because many stakeholders came to the table, each with a particular piece of the ultimate solution.

CUSTOMERS

We asked our customers to stand by us, and worked particularly hard to avoid any restructuring impacts on them. There was success on both counts (see page 23).

CREDITORS

Debt holders made the largest single financial contribution to the success of the restructuring. All outstanding bonds were cancelled, with the holders of secured debt receiving a new bond issue and becoming the principal owners of Catalyst. Holders of unsecured bonds got a partial return on their value in the form of either assetsale proceeds or an ownership stake in the company.

UNIONS AND EMPLOYEES

Labour costs make up a big piece of operating costs and needed to become more competitive. Resolving this brought the interests of every member of the six union locals at our British Columbia mills directly into play, along with those of their families and communities. Agreements were ultimately reached, on the basis of a very different negotiating approach (see page 12), that are expected to deliver \$19 million in annual labour cost improvement.

RETIREES

A decision on the part of salaried retirees to give up extended health benefits provided further cost relief. It also gave this stakeholder group a vote on the restructuring plan, which boosted the approval level. Catalyst assisted them to transition to alternative benefit arrangements, and took steps to avoid a regulatory outcome that would have locked in large losses for these pensioners (see page 15).

OPERATING COMMUNITIES

Host municipalities impact mill costs mainly through property tax rates, and we've worked intensively in British Columbia to get to rates that line up better with the cost of services we consume. While some municipalities had acted earlier, in 2012 all of them confirmed what we expect to be an ongoing reduced level of property taxation.

VENDORS

Suppliers by and large demonstrated a strong commitment to support our operations, notwithstanding the uncertainties that restructuring creates, and the fact that many received only partial payment for goods and services during a period early in the restructuring process.

GOVERNMENTS

We identified a number of ways in which government action could facilitate our restructuring and our competitiveness more generally, and took them forward with support from our unions and operating communities (see page 15). Not all were acted on, but harmonized sales tax (HST) tax-credit reimbursements were addressed, and regulatory amendments enacted to address the interests of pensioners.

THOUGHTS FROM STAKEHOLDERS

"It was clear to me from the start that quality and continuous service was a given. Nothing would change, despite how difficult it could get. When they lost that initial vote, for example, it made it very difficult for the management team, but they were very much on top of it." **Norrie Meth, Transcontinental Printing**

"We understand the value of the mill in our jurisdiction, and that's why we made a reduction in the tax rate. It was a way to do our part to help promote the company and see it rise out of creditor protection." Mayor Jon Lefebure, North Cowichan

"We had a keen sense of urgency to stay and work with the team through these difficult times. It comes down to the quality of the people we interact with – and the fact that our people genuinely like the folks at Catalyst." **Ross Cook, Gordon Trucking**

"Catalyst has been caught in the crosshairs of several challenges and threats, but it has marched forward. So we're definitely rooting and cheering for them. I'd like to see Catalyst come out of restructuring stronger, and continue as an innovator, adding value to Canadian natural resources." **Toby Heaps, Corporate Knights**

"Solving crises through the application of common sense and mutual sacrifice doesn't happen very often these days, so the Catalyst stakeholders should be commended... The paper business is not going to get any easier in the years ahead, but at least Catalyst now has a chance." Verle Sutton, Reel Time Report

2013

- Catalyst's new common shares began trading on the Toronto Stock Exchange (CYT)
- > Sale of Snowflake mill closed

IN AND OUT OF CCAA IN 225 DAYS

2011 DECEMBER

> Following an earlier announcement of a capital structure review, an interest payment on secured bonds was deferred

2012 JANUARY

- > A consensual plan of arrangement to address debt and operating costs was announced, for potential implementation under the Canada Business Corporations Act
- > At month-end, conditions for two-thirds bondholder support and new labour agreements with all Canadian union locals were un-met, and Catalyst filed for creditor protection under the Companies' Creditors Arrangement Act (CCAA)

MARCH

- > A new plan of arrangement was announced under CCAA, with provision for a sales process if it did not win approval
- > New labour agreements were concluded with all six Canadian union locals, satisfying one of the approval requirements

MAY

- > Amendments to the plan of arrangement were announced, resulting in a bigger debt reduction among other changes
- > The amended plan narrowly missed the required level of creditor approval and a sales process for Catalyst assets began

JUNE

- > Catalyst announced it would seek approval of a further amended plan, in light of support from salaried pensioners (who became entitled to vote when they gave up extended health benefits) and from additional unsecured creditors
 > Approval of the further amended plan
 - further amended plan was secured, with >99 per cent support, and was then sanctioned by Canadian and United States (U.S.) courts

JULY

> The permanent closure of the Snowflake mill was announced, in light of poor market demand for its primary product, and price, quality and availability challenges for recovered paper

AUGUST

- > Agreement was reached on a new postrestructuring loan facility
- A new board of directors was appointed in preparation for exit from creditor protection

SEPTEMBER

> Catalyst announced its exit from creditor protection, less than eight months after its initial filing, with significantly reduced debt and operating costs

EMPLOYEES + COMMUNITIES

08: CATALYST PAPER 2012 SUSTAINABILITY REPORT

SAFE, COLLABORATIVE, ENGAGED WORKPLACES

SAFETY: WHAT WE BELIEVE

THE OVERRIDING PRIORITY

In response to unacceptable safety results in 2012, we began a process of re-committing to six fundamental values and beliefs developed by employees 10 years ago:

- > All injuries can be prevented
- > Safety has overriding priority
- > Involvement in safety is essential
- > Safety is a line responsibility
- > Safety is built into every job
- > Success in safety is contagious

Our past experience suggests that strong employee buy-in to these values – and a demonstrated corporate commitment to act on them – improves safety results. These values informed some of the actions highlighted at right, and will once again become the fundamental drivers of safety actions and accountabilities in 2013.

SAFETY



2012 HIGHLIGHTS KEY OUTCOMES

- > Numbers of both medical incidents and more serious lost-time injuries were each up by one from 2011, with slight reductions in the frequency due to increased hours worked, and an anticipated larger drop in severity occurred (a lagging indicator influenced by results in the prior year)
- Results on all measures nevertheless fell significantly short of targeted improvement
- Some operation-specific targets were met, including lost-time injury reductions at Port Alberni and Powell River

KEY ACTIONS

- > Continued to implement the Field Hazard Assessment tool introduced in 2011, providing a routine risk identification and reduction process prior to doing any non-routine work (further participation increases are pending in 2013)
- Reduced dust accumulations in mills (an explosion risk) and began to assess potential upgrades to reduce dust generation at source
- > Stepped up requirements for speed and quality of safety incident investigation, and introduced grading and coaching to improve investigation outcomes
- Standardized safety inspection procedures and mapped operations to ensure inspection and audit accountabilities extend across mills
- > Improved web/information technologybased tools for safety training and for tracking of action items arising out of investigations, inspections and discussions
- > Used a commitment to workplace safety as a key selection criterion for new hires
- > Maintained robust employee communication aimed at heightening safety awareness



While the prevention of all injuries is the first of our safety values, properly managing the injuries that do occur also remains important. In 2012, we got better at finding ways to enable people to remain on-the-job with modified duties, during recovery from injury that kept them from performing regular duties. The number of plans for re-integrations of this type increased by nearly 40 per cent from 2011. For both financial and social reasons, people typically prefer to remain at work if they can, and continued activity often assists with injury recovery. This improvement also reduced both the number of lost-time injuries and the injury severity that would otherwise have occurred in 2012.

40% INCREASE IN WORKPLACE RE-INTEGRATION

INJURIES

HOW MANY





HOW OFTEN



Prior-year figures have been updated to reflect post year-end adjustments, including injuries that resulted in missed work on a delayed basis due to longer term injury progression or surgical wait times. An over-statement of Snowflake injuries in 2008 has also been corrected. Figures are current as of February 28, 2013.

JIM VENABLES

Stands out on the mill floor. The Powell River papermaker's red shirt identifies him as a safety representative – a role in which he acts as a resource to employees and supervisors and does monthly safety inspections, drawing on a quarter century of mill experience.

COLLABORATION + ACTIVE LISTENING

LABOUR AGREEMENTS: A DIFFERENT STYLE OF BARGAINING

More competitive labour costs were a pre-condition for concluding Catalyst's restructuring, and this was achieved in new five-year collective agreements with the five Communications, Energy and Paperworkers Union of Canada locals and the one Pulp, Paper and Woodworkers of Canada local that represent most of our employees.

The agreements include 10 per cent hourly rate reductions and adjustments to vacations, health benefits and work rules. They include graduated pay scales for new employees, although everyone remains eligible to move up to the same pay scales over time.

Bargaining with the survival of the company hanging in the balance called for a very different and more collaborative approach. Catalyst provided full disclosure of the costs of various scenarios, to help achieve the needed savings while retaining what mattered most to employees.

We also signed a new and competitive three-year collective agreement with the Christian Labour Association of Canada, which represents employees at the Surrey Distribution Centre.

UNIONS AND MEMBERSHIP (number of employees)

CANADIAN OPERATIONS

Canadian Office and Professional Employees Union	2
Christian Labour Association of Canada	73
Communications, Energy and Paperworkers Union of Canada	697
Pulp, Paper and Woodworkers of Canada	372

SNOWFLAKE

Carpenters Union	1
International Brotherhood of Electrical Workers	2
United Steelworkers of America	7
• • • • • • • • • • • • • • • • • • • •	• • • • •

United Transportation Union

Includes active employees at year-end. The remaining 435 employees, including three hourly employees at Snowflake, are not represented by a union.



JASON WEBB

Sees a future in paper. A certified millwright at Port Alberni with in-demand skills, he was one of 200 new hires at Catalyst in 2012, drawn by learning and lifestyle opportunities.



AN ENGAGED WORKPLACE

We continued twice annual employee trust and engagement surveys during 2012. Instituted in 2011, this is part of a broader effort to actively listen to the perspectives of all segments of our workforce. Survey results help guide the ongoing improvement of our internal communications.

Impacts on key tracking questions at the height of the restructuring were mostly moderate, with some improvement in the fall survey.

TOTAL EMPLOYEES AND PAYROLL

Year	Workforce	Payroll (\$ millions)
2012	1,592	\$ 206
2011	1,877	\$ 250
2010	1,803	\$ 246
2009	1,851	\$ 247
2008	2,711	\$ 341

Workforce figures are for active employees at year-end and exclude vacancies; payroll figures are inclusive of benefits and exclusive of restructuring costs (severance).

TOTAL WORKFORCE: 1,592 EMPLOYEES TOTAL PAYROLL: \$206 MILLION

EMPLOYEES BY LOCATION (year-end 2012) PAYROLL BY LOCATION (full year 2012)



U.S. SALES OFFICES 14 employees and \$4 million CLOSED OPERATIONS (Elk Falls, Snowflake) 30 employees and \$23 million

SURVEY RESULTS

6	
6	I am confident Catalyst can achieve its business objectives
4	I would not hesitate to recommend Catalyst to a friend seeking employment
8	My immediate team leader makes safe working conditions a priority every day
7	My immediate team leader follows through on what he/she says
4	The senior leadership team listens to employees' concerns
5	I feel connected to Catalyst Addition of a "Don't Know" option in the most recent
	survey means results are not precisely comparable.

Q1 11	Q3 11	Q1 12	Q3 12
60%	56%	52%	58%
47%	50%	37%	52%
83%	86%	88%	87%
79%	78%	81%	81%
44%	52%	57%	40%
53%	61%	53%	57%





PLANNING For tomorrow

WORKFORCE RETIREMENT BUBBLE

About three-quarters of our workforce will retire in the next 10 years, during a period when competition for skilled labour will be very tight. In 2012 we:

- Significantly stepped up our recruitment efforts and results
- Increased our involvement in and support for training programs
- Promoted knowledge transfer from experienced to new employees

HOURLY EMPLOYEES AGE 40 AND YOUNGER END OF 2011: 91 END OF 2012: 163

2012 HIGHLIGHTS

- > Expanded our internal recruitment team
- Provided referral bonuses to existing employees for successful hires
- > Increased our presence at job fairs
- Expanded co-op involvement and established trades apprenticeships at all mills
- Supported creation of a new power engineering program at Vancouver Island University and engaged with training institutions more broadly
- > Engaged with community stakeholders and the provincial government to encourage local training opportunities for youth that align with Catalyst recruitment needs
- > Provided more employment overlap (retiring/replacement employees) and mentorship opportunities, and initiated training program enhancements

2011: 6.8% 2012: 10.9% OVERALL TURNOVER

TURNOVER SUMMARY, CANADIAN WORKFORCE

HOURLY	2011	2012
Retirement	3.5%	4.9%
Voluntary Departure	1.9%	4.7%
Total	5.4%	9.6%
SALARY	2011	2012
SALARY Retirement	2011 5.2%	2012 1.4%
SALARY Retirement Voluntary Departure	2011 5.2% 5.2%	2012 1.4% 12.8%

Turnover rate is the number of employees either retiring or voluntarily leaving employment during the year, as a percentage of the total Canadian workforce at the end of 2012.

AGE CURVE OF EMPLOYEES



As of December 31, 2012; Canadian workforce; hourly age curve excludes Surrey Distribution Centre.

RECRUITMENT AND RETENTION IN CHALLENGING TIMES

With 200 new hires across Catalyst in 2012, and 50 vacancies forecast in 2013 due to hourly retirements alone, fresh faces and new perspectives are multiplying across the business. Catalyst recruiters credit successful hiring during the restructuring to candour on the company's financial challenges, the quality of the career-development opportunities offered, and the lifestyle advantages of Canada's West Coast. Business uncertainty was, however, a factor in some voluntary departures, resulting in a higher 2012 turnover rate at Canadian operations than in 2011 – particularly on the salaried side.



ENGAGING WITH GOVERNMENTS

In addition to specific actions that were vital to our successful restructuring (see page 6), we advocated for other measures from senior governments to improve the competitiveness of our industry's business climate. And we continue to believe there's a strong case to:

- > Help fund implementation by the City of Powell River of an innovative agreement we reached with it for potential infrastructure co-use (waste treatment)
- Provide assurance through the B.C. Community Charter of competitive property tax rates throughout British Columbia – a solution suggested in a 2012 Supreme Court of Canada decision dismissing our appeal relating to taxation in North Cowichan
- > Direct public funding to support local training in British Columbia resource communities and to facilitate large-scale workforce transitions that all employers face
- > Mitigate pending large-scale increases in electricity costs for Catalyst and other industrial users, arising from rate increases and the transition away from a harmonized sales tax in British Columbia
- > Enable a return to normal trade terms for Catalyst in its dealings with BC Hydro

2012 NEW EMPLOYEES BY LOCATION



An additional 18 new hires had start dates in 2013.

SAFEGUARDING PENSIONER INTERESTS

The 73 per cent of Catalyst employees who are represented by unions participate in multi-employer pension plans to which Catalyst contributes a fixed per cent of their earnings. Salaried employee compensation packages include a defined contribution pension plan.

In 2012, the restructuring put at risk the pension income of some 1,400 mainly retired salaried employees and surviving spouses. They are members of a closed defined benefit pension plan. The restructuring triggered regulatory provisions which, due to extremely low interest rates, would have locked in losses amounting to about a third of pension values.

At Catalyst's urging, the provincial government took steps to allow the plan to continue as a going concern, with company payments extending to 2028 to address a solvency deficit, and existing payouts maintained. Members have also been given a special portability option, by which they can exit the plan with a proportionate share of its assets and a top-up payment.

73% OF CATALYST EMPLOYEES ARE REPRESENTED BY UNIONS

Read an opinion-editorial piece by our CEO on the importance of addressing barriers to investment in manufacturing.

CATALYST PAPER 2012 SUSTAINABILITY REPORT

DISTRIBUTING VALUE

AN ECONOMIC ENGINE IN MILL COMMUNITIES

While our restructuring impacted spending and economic benefits of all types, our operations still resulted in significant direct value distribution to stakeholders in 2012. Shareholders were the exception. The company's former shareholders gave up their equity stake entirely and current shareholders received no dividends in 2012.

Much of the direct value was distributed in our operating communities. Our operations also result in significant indirect and induced benefits, distributed in our operating communities and well beyond. Economic multipliers indicate they amounted to approximately \$1.1 billion in economic activity and 5,500 jobs elsewhere in the British Columbia economy in 2012.¹





TOTAL SPENDING WITH B.C. VENDORS

OPERATING COMMUNITY BENEFITS

(excludes closed operations and U.S. sales offices)

CROFTON

Jobs (active at Dec. 31)	574
Wages + Benefits (\$ million)	\$66
Local Property Taxes ² (\$ million)	\$4.2
Spending with Local Vendors ³ (\$ million)	\$8

PORT ALBERNI

Jobs (active at Dec. 31)	310
Wages + Benefits (\$ million)	\$36
Local Property Taxes ² (\$ million)	\$4.2
Spending with Local Vendors ³ (\$ million)	\$10

POWELL RIVER

Jobs (active at Dec. 31)	412
Wages + Benefits (\$ million)	\$45
Local Property Taxes ² (\$ million)	\$2.9
Spending with Local Vendors ³ (\$ million)	\$5

NANAIMO

Jobs (active at Dec. 31)	36
Wages + Benefits (\$ million)	\$4
Spending with Local Vendors ³ (\$ million)	\$8

RICHMOND

Jobs (active at Dec. 31)	13	1
Wages + Benefits (\$ million)	\$2	1
Spending with Local Vendors ³ (\$ million)	\$19	 9

SURREY

Jobs (active at Dec. 31)	85
Wages + Benefits (\$ million)	\$7
Spending with Local Vendors ³ (\$ million)	\$43

1 Estimated using British Columbia Provincial

Economic Multipliers (BC Stats).

2 Includes provincial levies

3 Includes only vendors with addresses in the local municipality (restricted to Crofton/Chemainus in the case of Crofton)

VALUE DISTRIBUTED (\$ millions)



CATALYST PAPER 2012 SUSTAINABILITY REPORT

"Taxes" include property taxes, B.C. carbon tax, and sales and use taxes at Snowflake. "Benefits" include employer contributions to pension and other benefit plans.

PART OF THE LOCAL FABRIC

SURPLUS INFRASTRUCTURE MEETS COMMUNITY NEEDS

In 2012, we agreed to sell the City of Port Alberni a wastewater treatment lagoon. It's no longer required given previous treatment upgrades and current mill operations, and it will enable Port Alberni to meet future sewage treatment needs at a much lower cost than new construction would involve. The transaction includes surplus land on which an industrial road is planned.

We finalized an earlier agreement with the City of Powell River, through which land and other assets we no longer need have been made available to support local economic development. We also continued to support Powell River's pursuit of an arrangement for co-use of our waste-treatment infrastructure, but lack of financial support from senior governments remains a hurdle.

These arrangements were important components of broader discussions regarding the mutual benefits of more competitive tax rates in these communities.

CLOSURES AND COMMUNITY FUTURES

Despite concerted efforts, neither our former Snowflake nor Elk Falls operations¹ had the potential to make paper profitably under foreseeable industry conditions. Both sites do have the potential to attract different forms of economic development.

In December, we received court approval to sell the Snowflake site and the associated Apache Railway, which is a short line connection to one of the major freight networks. We co-operated with the Town of Snowflake to find a buyer who intended to operate Apache as a going concern, thus preserving the opportunity for it to anchor future development.

A sales agreement reached in 2012 for the Elk Falls site did not close and we, therefore, continued to seek sales opportunities that will leverage the re-development potential of this well situated and serviced site. An assessment of its environmental condition, as required by provincial regulation, began in 2012 and is scheduled for completion in 2013.

A CENTURY AND COUNTING IN POWELL RIVER

Our Powell River mill joined the small company of major British Columbia-based enterprises with a full century in operation in 2012. Powell River was Western Canada's first pulp and paper mill, and was the fastest running in the world a year after it opened. Today, it remains a major employer in town and is a high-quality specialties paper producer that also generates low-carbon electricity for sale. Production during its anniversary year made its way into titles as diverse as *The Globe and Mail* and *Fifty Shades of Grey*.



http://vimeo.com/49783277 Watch a local *Powell River Peak* video from one of the year's anniversary celebrations \$300,000 ES

CONTRIBUTING IN KIND

Support for our communities remained very much part of the Catalyst culture in 2012. Employees contributed \$75,000 to workplace United Way campaigns. Corporately, we also supported the United Way and the Salvation Army in our mill communities, and made the final \$30,000 instalment in a \$300,000 commitment to the Alberni Valley Multiplex.

And while total financial donations were necessarily limited, due to the restructuring, we found ways to make a further difference that sometimes involved in-kind support. This included a long-standing arrangement through which we provide newsprint for the "Raise-a-Reader" literacy supplement in the *Vancouver Sun* newspaper.

FIRST NATIONS NEIGHBOURS

Collaboration between our Powell River mill and the local First Nation resulted in the hiring of five appropriately qualified Tla'amin (Sliammon) members to fill temporary "gate hire" positions during a mill maintenance shutdown in late 2012. Several Tla'amin band members are also in permanent positions within the mill.

Proactively facilitating gate hires from this community is consistent with a 2011 memorandum of understanding – relating to expanded electricity generation at Powell River – in which we committed to identify employment opportunities, and to make annual payments to a Tla'amin-Catalyst Development Fund.

At Port Alberni, we trained Hupacasath First Nation members in the monitoring and operation of Catalyst-owned dams on Great Central Lake and Robertson Creek. This was done in anticipation of a possible transfer in ownership of these non-core assets to the band, pending its purchase of the third-party owned land on which one of them sits.

DAVIS CHIU

Wastes not. A recently hired process engineer at Powell River, he's focused on how to reduce wood fibre losses in the mill, and ensure more of this resource makes its way into paper products.

OUR TOMORROW:

DEPENDS ON NEW OPPORTUNITIES

GROWING MARKET SHARE AND PRODUCT LINES

CUSTOMERS + COMPETITIVENESS

SECURING A Strong position

MARKET SHARE AND PRODUCTS

While we're confident paper has an important long-term place in the media mix, we face the challenge of selling into markets where overall demand is declining and over-supply remains an issue. In 2012 we:

- > Grew our market share of existing product lines
- > Continued to expand our product line, focusing on higher value specialty papers and on commodity products with distinctive value propositions
- > Continued to leverage our position as a well-regarded supplier of quality pulp to China and other Asian markets where demand is growing
- Expanded our presence in Latin America and other emerging markets



2012 HIGHLIGHTS

- > Grew market share in both coated and uncoated specialty paper grades, while maintaining or increasing market share in commodity newsprint grades
- Increased pulp sales volumes, primarily into freight logical Asian and Australasian markets
- Kept orders in pace with increased production to keep machines running full
- > Developed Ascent, our coated three grade, for a mid-2013 launch; this brighter and glossier grade will let us better serve commercial printers
- > Developed Electrastar Max machinefinished grade at a higher brightness level (90)
- > Developed Marathon Lite newsprint at a 40 gram basis weight, providing cost and environmental advantages while maintaining the performance of a heavier sheet
- Increased book grade sales, a market segment in which we have expanded our position in recent years, including supplying paper for the blockbuster *Fifty Shades of Grey*
- Increased sales with strategic Latin American customers, mainly by leveraging the advantages of Marathon Lite
- Continued to implement better cross-functional co-ordination, service and insight into customer needs
- Grew sales of our environmentally preferred Sage product line



DIVERSE END USES FOR CATALYST PRODUCTS

LATIN AMERICAN MARKET DEVELOPMENT

Colombia, Ecuador and Peru stand in stark contrast to much of the rest of the world, with strong economic growth and a burgeoning middle class that is using more paper. From a Catalyst perspective, shipping options and newsprint supply dynamics are also favourable. And high road transportation costs mean lighter product weights are especially advantageous. Trials of Marathon Lite in 2012 paved the way for significantly increased sales to the publishers of marketleading daily newspapers in two of these markets. Given just how light this product is, customers typically need to see clear proof it will work on their presses. As that case continues to be made, more opportunities are expected in South America.

KEEPING CUSTOMERS ONSIDE

When a strategic supplier goes into creditor protection it can only be a source of major concern. Yet not one customer left us during our restructuring. Feedback suggests three factors were key: our long-standing reputation for product and service quality; our clear (and kept) promise of reliable delivery to customers during restructuring; and the extensive customer communication, often directly from our CEO, that we maintained from start-to-finish in the process.

LINDA CHAMPIGNY

Brings order to bear. Part of the Richmond sales team, she helps to assess and drive new business opportunities, and to optimize customer orders so that our machines can run full and profitably.



Our products span a wide spectrum, from commodity grades through to numerous specialty papers for diverse marketing, publication and other uses. www.catalystpaper.com/products

CATALYST PAPER 2012 SUSTAINABILITY REPORT

EFFICIENT APPROACHES

A COLLECTIVE FOCUS ON EFFICIENCY

The number five paper machine at Port Alberni produces our highest value specialty papers and is also the most complex machine Catalyst operates. And in 2012, it became the focus of attention for a company-wide task force of subject matter experts.

The Reliability and Productivity Team, formed in late 2011, selected PM5 based on the gap between its potential and actual contributions to earnings. Building on work already done by mill management and crews, the team provided guidance and fresh insights and secured resources to address efficiency issues, including a design flaw that was contributing to sheet breaks. Solving the problem resulted in more efficient and reliable production, which has a number of other benefits:

- > less likelihood of product quality issues
- > less potential for safety incidents
- > less resource use per tonne of production
- > better ability to plan for rail- rather than truck-based delivery
- > better ability to meet sales commitments



2011 figures updated to reflect post year-end adjustments based on final claims settlements.

DISTRIBUTION YIELD BY MODE

RAIL (tonnes/car)		2012	2011	2010	2009	2008
Surrey Distribution Centre		74.4	74.0	73.4	73.6	73.7
Snowflake		76.3	77.4	78.0	76.2	74.9
TRUCK (tonnes/truck)	.					
Surrey Distribution Centre		26.1	26.3	26.7	26.3	25.2
Snowflake		20.0	19.9	19.9	19.9	20.0
CONTAINER (% utilized)						
Surrey Distribution Centre		98.2	97.4	96.8	97.0	96.9



THE RAIL ADVANTAGE

One of our rail partners estimates that our total shipments with them in 2012 had less than a quarter of the carbon footprint that shipping the same amount of product by long-haul truck would have, with more than 9,000 tonnes of carbon emissions being avoided as a result.



GETTING PRODUCTS TO MARKET

Reliable and cost-efficient delivery is key to our competitive position, and a significant factor in supply-chain related GHG emissions. We achieved record yield rates for rail and maritime containers at the Surrey Distribution Centre in 2012 – a measure of efficient use of available capacity.

We developed new options for eastbound products that rely more heavily on rail. There are both economic and environmental benefits to using rail rather than trucks. We remained a registered partner in the U.S. Environmental Protection Agency's SmartWay program, working closely with shippers who are taking defined steps to reduce their emissions. And we worked with smaller shippers with whom we contracted in 2012 to encourage them to pursue SmartWay registration.

(CROSS) WORDS ON PAPER

It's one of the quintessential on-paper experiences – a Sunday morning spent on the ever-so-satisfying task of filling in the grid of the weekly crossword puzzle. Like paper itself, crossword puzzles have a long history – the first rudimentary one is believed to have been published in 1890 – and an enduring appeal. Here, then, is a brief example of the genre, all the answers to which can be found in this report.



ACROSS

- 1 Getting with the programme on forest certification
- 4 Wood waste is neutral where this is concerned
- 7 A new council seeks to render this clean
- 9 A rainforest is named for this great beast
- 10 Grew or held steady across all product lines (two words)
- 13 An iconic B.C. species tagged
- 16 The "R" in "QR Code"
- 17 One who, like our Powell River mill, has endured through many years
- 18 Under this symbol on the TSX
- 19 Namer of the 50 Best (two words)

DOWN

- 2 A river diminished by drought
- 3 All injuries can be ____
- 5 Vancouver suburb and corporate headquarters
- 6 A fluid topic to audit
- 8 A continent of much market opportunity (two words)
- 11 200 new ones in 2012
- 12 A wise choice in paper products14 Many shades of this colour appeared on our paper
- 15 An upward climb, and new product line

Answers can be found on the inside back cover.

OUR TOMORROW:

CALLS FOR WISE CHOICES AND CAREFUL USF

CONSERVATION AND A SUPPLY-CHAIN FOCUS

KEY RESOURCES



USING LESS, GENERATING MORE

ENERGY:

As a highly energy-intensive business, in 2012 we continued to work to:

- > improve the efficiency of our energy use
- increase our self-generation of electricity, using renewable and carbon-neutral fuels
- > minimize our consumption in peak demand periods to reduce our electricity costs



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

adt - Air-dried tonnes of product

TOTAL ELECTRICITY USE



The shaded portion above represents selfgenerated electricity; the rest is purchased.

2012 HIGHLIGHTS

- > Implemented conservation projects, resulting in reduced energy usage and increased electricity self-generation totalling 20,900 MWh/yr at our Canadian operations (see case studies page 45)
- > Reduced the intensity of electricity use at our Canadian operations
- Generated additional electricity at Powell River, primarily using renewable and carbon-neutral wood waste, for sale to BC Hydro (see facing page)
- > Increased self-generation, including additional generation at Port Alberni and at Crofton, the latter resulting from upgrades at its turbo generator in late 2011
- Completed engineering work for replacement of our last boiler running on fuel oil only
- Better quantified typical energy use and improved our ability to assess variances and influencing factors, providing better insight on our efficiency performance
- > Began assessment of ISO 50001 energy management system
- > Participated in the B.C. Forest Sector Bio-economy Transformation Council, a new industry-government initiative focused on energy generation and other uses of wood fibre

119,400 MWH POWELL RIVER GENERATES ADDITIONAL

ELECTRICITY FOR SALE TO BC HYDRO

POWELL RIVER: MORE THAN JUST PAPER

In 2012, our Powell River mill took product diversification to a new level by selling energy as well as paper. This followed a capital upgrade that allowed it to generate 119,400 MWh of additional electricity for sale to BC Hydro, thus leveraging existing infrastructure and expertise.

This operational change impacted environmental performance at the mill – most notably there was a large increase in GHGs. This resulted from higher consumption of natural gas, which is used as an auxiliary fuel to maintain steam production in the mill's main power boiler.

About three-quarters of the increase in GHGs related to the challenge of operating the boiler at the higher capacity, while burning wood waste fuel which at times exceeded the boiler's design for maximum moisture content due to wet spring weather. Wetter wood waste releases less heat energy, thus requiring more natural gas to maintain required steam output. The rest of the GHG increase is attributable to mechanical issues impacting the boiler, which were unconnected to increased electricity generation.

Powell River will continue to generate electricity for sale in 2013. However, the boiler operating rate will be reduced during periods of high-moisture fuel consumption to address both the added costs and emissions that result from increased natural gas use. Trials in early 2013 suggest that use of dryer wood waste fuel should limit natural gas use even at higher capacity boiler operation. A planned rotor replacement will also allow for more efficient electricity generation from available steam.

ALLOCATING THE IMPACTS

There is a need under these circumstances to allocate carbon between manufactured paper and sold electricity, so as to provide an accurate picture of the environmental footprint of each. While major GHG accounting protocols such as that of the World Resources Institute endorse the need for allocation, no detailed methodology is yet available. For the purposes of GHG intensity, we have allocated 25 per cent of the 2012 GHG increase at Powell River to paper – the proportion resulting from mechanical issues unconnected with increased generation – and allocated the other 75 per cent to the sold electricity.

This results in a paper carbon intensity at Powell River of 126 kg CO_2e/adt , and an electricity intensity of 351 kg CO_2e/MWh (see page 42). The latter compares with an intensity of about 440 kg CO_2e/MWh for electricity generated with natural gas alone.

Various other metrics were impacted by the additional electricity generation at Powell River, including particulate and sulphur dioxide emissions, solid wastes, and fuel and total energy use. The mill's water intensity, which is based on treated effluent discharges, was not impacted. But total water use inclusive of non-effluent discharges was up significantly, as the energy generation required increased volumes of cooling water.



adt - Air-dried tonnes of product

RESPONSIBLE SOURCING

WOOD FIBRE:

While we manage and harvest no forests ourselves, wood fibre is one of our largest inputs, and a point at which the paper supply chain directly intersects with the health of important ecosystems. In 2012, we minimized impacts within our control by:

- > Maintaining a strong preference for wood fibre that is certified to widely recognized third-party standards for sustainable forest management
- Maintaining chain-of-custody systems at our mills certified by the Programme for the Endorsement of Forest Certification (PEFC) and the Forest Stewardship Council (FSC) – enabling us to verify the origin and certification status of products
- Avoiding controversial fibre sources, identified in collaboration with environmental groups and other stakeholders
- > Maximizing the efficiency with which we convert purchased fibre into finished product

2012 HIGHLIGHTS

- > Obtained 59 per cent of fibre deliveries to our Canadian mills from sources certified to either Canadian Standards Association or Sustainable Forestry Initiative standards (both PEFC recognized), or to the relevant FSC standard
- > Ensured that 100 per cent of fibre deliveries to our Canadian mills came from legal and otherwise non-controversial sources, consistent with our FSC Controlled Wood certification and with the requirements of the U.S. *Lacey Act*
- > Obtained 80 per cent¹ of recovered paper deliveries to the Snowflake mill from sources meeting FSC post-consumer criteria, exceeding the minimum 70 per cent content confirmed by its "FSC Mix" label
- > Assigned additional staff resources to address high solids content in wastewater at Powell River (an indication of fibre losses during processing)
- Continued to voluntarily report on fibre use to the Forest Footprint Disclosure
 Project (www.forestdisclosure.com)

READ MORE ABOUT OUR WOOD FIBRE CERTIFICATION >



www.catalystpaper.com/sustainability/environmentalperformance/chain-of-custody-and-fibre-certification Forest-management certification combined with chain-of-custody tracking gives customers a clear sightline right back to the forest floor.

1 Percentage reflects deliveries from January to August. The FSC percentage was not calculated for the final month of the mill's operation, due to timing of receipt of required documentation relative to the closure. There were lower than usual deliveries that month due to use of existing inventory, and month-to-month variance in the FSC percentage was typically limited earlier in the year.

62% OF OUR FIBRE WAS CERTIFIED

THE RECYCLED CHALLENGE

While recovered paper has made up close to a third of Catalyst's total fibre supply in the past, in 2012 we transitioned to full use of virgin fibre with the closure of our Snowflake recycling mill. Paper recovery rates have climbed steadily in recent years, but cost, quality and availability constraints - combined with tough newsprint markets - made paper production at Snowflake unviable.

Recycled production, however, is not the exclusive marker of environmentally responsible paper. Depending on comparative considerations such as energy sources, a recycling mill may well have a heavier footprint than a non-recycling mill. Recycled paper is also not suitable for all applications. Nor can all fibre be recovered, due to single-use applications like hygiene products and lasting materials like books. And the fibre that is recovered eventually breaks down. With our strong focus on sourcing from sustainably managed forests, we're confident our products remain part of a responsible procurement mix.

CLOSING IN ON CONSERVATION TARGETS IN THE GREAT BEAR RAINFOREST

An agreement among industry, environmental groups and other stakeholders on land use and forest management in British Columbia's 64,000 square kilometre Great Bear Rainforest (GBR) is one of the most widely recognized and durable conservation achievements in North America. On-the-ground changes already implemented include:

- > 35 per cent drop in allowable harvest levels between 2001 and 2009
- > 350 per cent increase in parks and conservancies, with forestry operations restricted to 16 per cent of the remaining forested area
- > shift to smaller harvest areas (>70 per cent of cutblocks are now <10 hectares, compared to 42 per cent in 1996)

10% FSC Post-Consumer Waste

1% FSC Virgin Fibre 51% PEFC Virgin Fibre

> better protection for wildlife habitat, streams and wetlands

As a consumer of fibre from the region, and a member of the Coast Forest Conservation Initiative (CFCI), Catalyst remained actively involved in the ongoing implementation of this agreement in 2012. The other CFCI members manage forests in the GBR. They worked intensively with environmental partners to finalize set-asides and management practices that will secure 70 per cent old growth representation regionally. As of year-end, participants expected to finalize that work in mid-2013.



FIBRE CERTIFICATION 1





Certified fibre breakdowns are based on percentages of certified fibre delivered during the year (calculated January to August in the case of Snowflake), applied to mill usages.

2 Does not equal 100 due to rounding.

PULP LOGS

CATALYST PAPER 2012 SUSTAINABILITY REPORT

MAPPING OUT WATER USE

WATER:

During 2012, there were calls from non-governmental groups for stricter regulation of industrial water use in British Columbia, and significant changes to water legislation are expected sometime after the 2013 provincial election. At our mills, we continued to:

- > Improve our mapping of water use and our understanding of what influences it, primarily through comprehensive mill water audits
- Assess and implement improvements, with a focusing on those that reduce both water use and operating costs (typically based on energy savings)

READ MORE ABOUT OUR WATER QUALITY >



www.catalystpaper.com/sustainability/environmental-performance/ environmental-effects-monitoring Our mills report regularly on field studies done as part of the marine-focused federal Environmental Effects Monitoring program.

2012 HIGHLIGHTS

- > Reduced water-use intensity at all mills with improved paper machine operation and production efficiency, as well as an operational focus on water conservation
- > Completed a comprehensive water-use audit at Powell River in December, following audits at Port Alberni in 2010 and Crofton in 2011
- > Continued to act on reduction opportunities and further assessment requirements identified during the 2011 Crofton water audit; this included the ongoing rebuild of equipment used to process black liquor (a wood-based biofuel), resulting in energy and process efficiency improvements and reduced water use
- > Crofton also improved its capacity for real-time water-use monitoring, which is expected to enable it to better address the consumption impacts of machine interconnections
- > Added staff resources and took other measures to address issues with secondary effluent treatment at Powell River (see facing page)

MANAGING SUPPLY, SAFEGUARDING QUALITY

Despite its seeming abundance in coastal British Columbia, potential water supply constraints and quality impacts exist. As part of our partnership with World Wildlife Fund Canada, we completed a water-supply risk assessment at Powell River in 2012. While indicating limited scarcity risk, it confirmed the intensity of water use on the part of both the mill and its suppliers. We also actively engaged in other water management efforts.



CROFTON

The Cowichan River supplies water to both our Crofton mill and the nearby community, and provides fish habitat. Record drought conditions in 2012 caused concern on all fronts and, when rain finally arrived in October, it was only a few weeks ahead of a potential need to shut mill production. We manage a weir that controls flows into the river from Cowichan Lake, under a provincial permit and in consultation with local stakeholders. There was agreement among these stakeholders at year-end on the need for a new protocol that will improve the capacity to address drought conditions. Catalyst is committed to arriving at a solution that will make it possible to better manage for altered weather patterns.

PORT ALBERNI

Our British Columbia mills participate in the federal government's Environmental Effects Monitoring (EEM) program, which assesses the impact of mill operations on surrounding marine ecosystems. EEM testing is continually refined and, in 2012 at Port Alberni, it included tagging 300 sockeye salmon with temperature-monitoring devices. This was done in partnership with the Department of Fisheries and Oceans, and a local fishing supply store collected the tags. This unique new data set will provide insight on how salmon respond to seasonal needs to remain deep enough in the water to stay cool, and high enough to get sufficient oxygen.

POWELL RIVER

Relatively high levels of both total suspended solids and biochemical oxygen demand (BOD), and non-compliances on these two water-related metrics (see page 49), were the impetus for various changes at Powell River that will better ensure effluent quality. The issues were traced to additives used in making certain paper grades, which can inhibit the effectiveness of the micro-organisms that are used to treat effluent. Problematic additives were eliminated, an additional screening process introduced for any new chemicals that could end up in effluent, and more frequent and specialized testing within the secondary treatment plant was put in place.

TOTAL WATER DISCHARGES



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

adt - Air-dried tonnes of product

DARLENE WALKEY

Has a long-term view. A second-generation Catalyst employee and environment specialist at Crofton, she's seen first-hand the reduction in the mill's footprint over the years and foresees further improvement – such as more re-use of materials in closed-loop systems.



OUR TOMORROW:

CAN BE EVEN CLEANER THAN TODAY

PRODUCTION IMPACTS

A SUSTAINED FOCUS ON A LIGHTER FOOTPRINT

LOW-CARBON PERFORMANCE

GREENHOUSE GASES:

Catalyst reduced greenhouse gas emissions before there were requirements to do so. There is now a commitment to a significant province-wide emissions reduction in British Columbia by 2020 and a provincial carbon tax is in place – we paid \$6.5 million in 2012. While viable opportunities for further reductions at our mills are limited, in 2012 we continued to:

- > Minimize the proportion of fossil fuel in our overall mix
- Improve energy-use efficiency, and maximize self-generation using renewable and carbonneutral fuels
- Maximize machine productivity, to limit emissions per tonne of product

READ MORE ABOUT OUR SAGE PRODUCTS >



www.catalystpaper.com/products/sage Sage-designated specialty papers are manufactured carbon neutral and have a range of other documented environmental attributes.

2012 HIGHLIGHTS

KEY OUTCOMES

- > Corporate-wide direct GHG emissions were down, mainly due to the September closure of the Snowflake mill, where coal was the primary fuel; emissions from this mill averaged approximately 845,000,000 kg CO₂e/year over the previous five years
- Direct GHG emissions increased at our Canadian operations, in both absolute and intensity terms
- > This was due mainly to additional electricity generation at Powell River for sale to BC Hydro, which is discussed on page 29; for the purposes of intensity reporting, we have allocated increased GHGs between paper and sold electricity production at this mill
- > Direct GHG emissions intensity rose moderately at Crofton and dropped by a larger proportion at Port Alberni; better power boiler performance resulting from upgrades in the previous two years contributed to the improvement at Port Alberni
- > Total direct Canadian emissions were at 21 per cent of 1990 levels on an absolute basis, thus exceeding our commitment as a World Wildlife Fund Climate Savers company to cut them by 70 per cent (see pie chart)
- Indirect emissions rose mainly due to increased use of purchased electricity at Snowflake, and were down moderately at Canadian operations

KEY ACTIONS

- > Sold 38,000 tonnes of Sage products, which among other environmental features are manufactured carbon neutral, relying on a small carbon offset purchased from verified suppliers
- > Independently assured the manufactured carbon-neutral status of Sage sales over an earlier multi-year period, validating our accounting procedures in this regard
- Continued to voluntarily report to the Climate Disclosure Project (www.cdproject.net)
- > Responded to continued growth in requests for comprehensive data on the carbon footprint of our products, from customers completing scope 3 assessments

GHG REDUCTIONS FROM 1990 - HOW THEY WERE ACHIEVED (%)



OPERATIONAL CLOSURES

SWITCHING TO LOWER CARBON FUELS

IMPROVED ENERGY EFFICIENCY

PENDING REDUCTION TARGETS

The British Columbia government has committed to a 33 per cent GHG reduction province-wide from a 2007 baseline by 2020. This is expected to translate into sectoral intensity targets that will not require further reductions at Catalyst operations, and is also expected to take precedence over a similar but distinct federal reduction commitment.

2012 GHGS BY SCOPE (TONNES CO,e)

adt - Air-dried tonnes of product



GHG emissions (Scopes 1 and 2) are reported based on measurement and calculation methodologies consistent with the ISO 14064-1 standard and with the World Resources Institute / World Business Council for Sustainable Development Greenhouse Gas Protocol. While these are among the most widely applied methodologies globally, they differ from those specified for the purposes of separate reporting to the British Columbia provincial government. Scope 3 emissions are estimated with reference to supply-chain research conducted in cooperation with the University of British Columbia and World Wildlife Fund Canada.

additional electricity for sale, see page 29.

LIMITING OUR OUTPUTS

PARTICULATES:

Particulates are air-borne solids produced by combustion. They are a key air-quality consideration in our mill communities and, at smaller diameters (PM2.5), have potential health impacts. While there are many sources – wood-burning stoves are a major one – industrial emitters are subject to strict regulatory limits and monitoring requirements.

Crofton maintained a strong focus on particulate management in 2012, including ongoing efforts to contain emissions. While emissions remained approximately the same as in 2011, and down from more elevated levels in 2010, further improvement will be pursued in 2013. In addition to the "endof-pipe" focus, a rebuild was underway at year-end of biomass fuel presses, to provide a cleaner burn and less particulate generation.

Powell River had higher particulate emissions at its main power boiler, although they remained well within permit limits and ambient monitoring detected no impact on local air quality.

Particulate emissions are measured twice annually at Powell River based on the flow through the mill's stack and the concentrations found in the flow. Flow increased due to higher capacity operation of the power boiler to generate electricity for sale (see page 29). Concentrations also increased, although only one of the two measures was outside the range found in previous years.

Port Alberni maintained low particulate levels, and upgraded its monitoring equipment.

TOTAL PARTICULATE



All figures based on actual test results; NPRI data (see page 47) may differ because it uses emission factors and includes other sources.

adt - Air-dried tonnes of product

AVRIL LOFT

Watches the weather. Rough waters and barge delays are among the variables the Surrey Distribution Centre has to keep in mind in achieving strong ontime and damage-free product delivery to Catalyst customers.

SOLID WASTE:

Most solid waste generated at Catalyst facilities is made up of sludges that are a byproduct of effluent treatment, and ash leftover from energy generation. Residual recovered paper, a byproduct of recycling, has also been a significant form of solid waste, but is no longer being generated after the Snowflake mill closure.

In 2012, 36 per cent of solid wastes were recycled or burned to generate energy. The rest was disposed of at Catalyst owned and managed landfills.

Solid wastes increased as a result of additional electricity generation and

associated ash generation at Powell River, and disposal requirements relating to the Snowflake mill closure. Ash excavation from a lagoon at Snowflake contributed further. This was done in preparation for the diversion and repair of a separate lagoon where a leak was identified in 2011, and also lowered the recycling percentage since landfilling was required.

Work began in 2012 on the previously approved expansion of the landfill at the Powell River mill. And preliminary assessment began relating to expansion opportunities for the lime kiln waste landfill at Crofton, which is nearing its capacity limit.

A multi-party demonstration project concluded at Crofton, and verified the potential of a new waste treatment technology to reduce effluent sludge volumes. It also has the potential to reduce requirements for fertilizer and other inputs, and to recover energy in the form of methane. Business case analysis was underway at year end.

TOTAL WASTE GENERATION, 2012

	Disposition			
	Weight (t)	% Landfilled	% Recycled or other	
Fly ash	203,467	87%	13%	
Grate ash, sand ¹	8,754	100%	0	
Dregs & grits	7,669	100%	-	
Scrap metal	3,612	26%	74%	
Waste oil	216	-	100%	
Effluent treatment sludges	124,379	19%	81% ²	
Paper residuals	9,829	100%	-	
Other/miscellaneous	7,542	>99%	<1%	
Total	365,468	64%	36%	

1 Powell River set up an internal re-use process for sand (used in power boilers) in late 2011. It had previously been sent offsite to a waste management company and a portion was recycled and a portion returned to the mill for re-use. Landfilling is required for all of the remaining but reduced waste stream.

2 Incineration (energy recovery).

Includes all waste generated at Catalyst's operating production facilities.

SOLID WASTE TO LANDFILL





(m³/adt)

adt - Air-dried tonnes of product

ENVIRONMENTAL DATA TABLES: ALL ABOUT THE RESULTS

SNOWFLAKE CLOSURE

A closure plan for the Snowflake mill, specifying ongoing monitoring requirements, was submitted to Arizona state regulators. One exceedance of the power-boiler emissions opacity limit occurred during the closure (a low significance event). A comprehensive and unannounced postclosure inspection by regulators revealed only minor issues with the site condition and they were promptly resolved.

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While wastewater treatment facilities were not in operation at year-end, this and other environmental infrastructure remained in place pending the site sale. Both of the specific effluent storage facilities where a need for repair work was identified in 2011 had been decommissioned.

An independent assessment of the site condition and impact of past operating practices was completed, and results were shared with prospective purchasers. No need for site remediation was foreseen, and hazardous materials had been removed. The sale of the site completed in early 2013.

ADDITIONAL WATER AND AIR-RELATED METRICS

The graphs on the facing page show corporate-wide performance on an absolute and intensity basis for six additional outputs from our operations, which are not addressed in the preceding sections. Each has potential impacts on the receiving environment and has been identified as being of interest to our stakeholders. A trend line for absolute outputs from our Canadian operations only is included where relevant.

WATER QUALITY PERFORMANCE

(kg/adt)

TOTAL TSS - TOTAL SUSPENDED SOLIDS

(thousands of tonnes/year)





TOTAL AOX 1 – ADSORBABLE

TOTAL BOD¹ – BIOCHEMICAL OXYGEN DEMAND



adt - Air-dried tonnes of product

1 Relevant at Canadian operations only.

AIR QUALITY PERFORMANCE

TOTAL DIOXIN AND

FURAN RELEASES² (grams/year) (mg/adt) 90 0.03 60 0.02 30 0.01 0 0 08 09 10 11 12 O Absolute (grams/year) 21.9 28.2 42.5 29.3 23.5 Absolute excluding Snowflake (grams/year) 22.8 20.0 26.3 41.2 27.8 Intensity (mg/adt) 0.017 0.025 0.017 0.010 0.013

Results are heavily influenced by factors such as operating conditions and fuel characteristics and are often highly variable. All operation-specific emissions in 2012 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 ²



2011 figure updated to reflect a calculation adjustment. See discussion of operation-specific results on page 43.

TOTAL TRS ² – TOTAL REDUCED SULPHUR



Relevant at Crofton only.

2 All figures based on actual test results; NPRI data (see page 47) may differ because it uses emission factors and includes other sources.

adt - Air-dried tonnes of product

Environmental metrics are shown in both absolute (amount per year) and intensity (amount per day or per tonne of production) terms. In the case of Snowflake, 2012 absolute measures are for the full year, whereas intensity measures are based on outputs during the nine months it operated. Production totals used to calculate intensity measures (1,679.8 thousand tonnes) are higher than sales-based production totals included in financial reporting (1,388.6 thousand tonnes) for two reasons: i) totals used for environmental reporting include internally produced and consumed pulp, as well as product not meeting quality requirements for sale; and ii) totals used for financial reporting exclude production from Snowflake, which has been reclassified as a discontinued operation.

AIR EMISSIONS (BY MILL)

	2012	2011	2010	2009	2008
Crofton					
Total GHGs as kg CO ₂ e/year (scope 1/direct)	162,266,000	139,466,000	140,582,000	112,063,000	162,866,000
Total GHGs as kg CO ₂ e/adt (scope 1/direct)	236	205	236	242	224
Total GHGs as kg CO ₂ e/year (scope 2/indirect)	24,164,000	25,961,000	29,845,000	29,382,000	25,324,000
Total GHGs as kg CO ₂ e/adt (scope 2/indirect)	35	38	50	63	35
Particulate matter kg/day	1,120	1,085	1,280	565	906
Particulate matter kg/adt	0.56	0.54	0.78	0.43	0.43
Sulphur Oxides kg/day	5,436	5,935	5,331	2,329	9,392
Sulphur Oxides kg/adt	2.76	3.00	3.24	1.79	4.45
TRS kg/day ¹	214	249	166	115	192
TRS kg/adt	0.200	0.230	0.197	0.164	0.180
Power Boiler dioxin ng/m ³ I EQ	0.01	0.03	0.03	0.02	0.03
Ambient TRS % compliance A level 24 hr average 1	80.0	84.5	95.3	97.3	99.1
Ambient PM2.5 average, ug/m ^{3/2}	7.5	4.5	4.8	4.8	4.5
Port Alberni					~~ ~~ ~~ ~~ ~
Iotal GHGs as kg CO ₂ e/year (scope 1/direct) ³	28,771,000	35,490,000	39,699,000	37,988,000	36,708,000
Iotal GHGs as kg CO ₂ e/adt (scope 1/direct)	17 400 000	17 200 000	126	10 554 000	14 0 42 000
Total GHGs as kg CO ₂ e/year (scope 2/Indirect)	17,490,000	17,300,000	22,037,000	19,554,000	14,843,000
Iotal GHGS as kg CO ₂ e/adt (scope 2/indirect)	54	20	70	67	20
Particulate matter kg/day	23	20	28	0.026	20
Falliculate Inditer Kg/dut Sulphur Ovidos kg/dov ³	0.025	0.021	0.030	0.050	0.025
Sulphur Oxides kg/adt	427	0.58	0.56	404	427
Power Boiler dioxin ng/m ³ TEO	0.40	0.08	0.00	0.04	0.55
Ambient PM2.5 average, ug/m ³	6.3	7.9	- 0.07	- 0.09	- 0.27
Powell River					
Total GHGs as kg CO ₂ e/year (scope 1/direct)	97,470,000	42,166,000	23,694,000	42,116,000	34,557,000
Total GHGs as kg CO2e/adt manufactured paper (scope 1/direct) ⁴	126	95.1	51.2	91.7	77.3
Total GHGs as kg CO2e/MWh sold electricity (scope 1/direct) ⁴	351	N/A	N/A	N/A	N/A
Total GHGs as kg CO ₂ e/year (scope 2/indirect)	16,012,000	14,569,000	17,312,000	23,505,000	16,769,000
Total GHGs as kg CO ₂ e/adt (scope 2/indirect)	36	33	37	51	37
Particulate matter kg/day ⁵	138	13.1	7.3	54	42
Particulate matter kg/adt	0.11	0.01	0.01	0.04	0.03
Sulphur Oxides kg/day ⁶	452	302	134	313	277
Sulphur Oxides kg/adt	0.347	0.233	0.103	0.242	0.220
Power Boiler dioxin ng/m ³ TEQ	0.02	0.05	0.02	0.07	0.01
Ambient TRS % compliance A level 24 hr average	97.8	98.9	93.4	94.2	100
Ambient PM2.5 average, ug/m ³	1.5	1.5	1.9	2.5	2.1
Snowflake (all figures are for full year)					
Total GHGs as kg CO ₂ e/year (scope 1/direct)	589,358,000	854,558,000	898,466,000	695,395,000	907,823,000
Total GHGs as kg CO ₂ e/adt (scope 1/direct)	2,570	2,961	3,074	2,995	2,264
Total GHGs as kg CO ₂ e/year (scope 2/indirect)	40,606,000	25,428,000	24,713,000	15,196,000	13,512,000
Iotal GHGs as kg CO ₂ e/adt (scope 2/indirect)	184	88	85	65	34
Particulate matter kg/day	320	270	348	472	345
Particulate matter kg/adt	0.40	0.33	0.43	0.53	0.31
Sulphur Oxides kg/day '	9,243	/,401	/,51/	6,949	6,330
Sulphur Oxides Kg/dut	11.51	9.10	9.31	06.\	0.70

- 1 There was further reduction in the compliance level with air-quality guidelines for total reduced sulphur, despite lower emissions from the mill. The compliance decline was due to higher readings at a monitoring station located at the mill fence, which may have been impacted in 2012 by the proximity of a sludge treatment demonstration project. One of two monitoring stations in nearby residential areas had improved compliance in 2012, and the other maintained 100% compliance. However, in light of the overall compliance finding, assessment remained underway at year-end of possible contributing factors at the mill.
- 2 There are multiple sources of particulates and ambient levels do not correlate closely with mill emissions, which varied only moderately in 2012.
- 3 2011 figures updated to reflect a calculation adjustment.
- 4 Powell River's carbon intensity is now allocated between the two products it sells. See discussion page 29.
- 5 See discussion page 38.
- 6 Sulphur oxide levels are based on the flow through the mill's stack and the concentrations found in the flow. While concentrations were

up by 15% from 2011, increases in these measures were mainly due to increased flow resulting from higher capacity operation of the mill's boiler to increase electricity generation.

7 As in the previous two years, sulphur oxide levels were impacted by high sulphur content in coal and by applicable emission factors. Emission 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. Lower energy content in coal in 2012 further contributed to sulphur oxide emissions.

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.

TANYA JANOTA

Keeps supplies coming in. A corporate buyer based at Crofton, she worked closely with vendors to make sure mills got materials they needed to meet customer orders throughout 2012's financial restructuring.

EFFLUENT (BY MILL)

	2012	2011	2010	2009	2008
Crofton					
TSS kg/day	3,045	2,889	2,259	1,373	3,095
TSS kg/adt	1.7	1.6	1.4	0.9	1.6
BOD kg/day	1,464	1,726	831	530	1,012
BOD kg/adt	0.78	0.92	0.51	0.44	0.51
AOX kg/day	396	403	321	322	408
AOX kg/adt pulp	0.32	0.33	0.32	0.46	0.32
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	100	89	100	100	100
Port Alberni					
TSS kg/day ¹	693	412	414	380	352
TSS kg/adt	0.8	0.5	0.5	0.5	0.5
BOD kg/day ¹	410	280	270	190	290
BOD kg/adt	0.46	0.33	0.31	0.23	0.39
Trout toxicity % compliance	100	100	100	100	100
Powell River					
TSS kg/day ²	1,822	1,885	1,718	1,483	1,330
TSS kg/adt	1.5	1.5	1.4	1.0	1.1
BOD kg/day ²	786	705	661	652	532
BOD kg/adt	0.63	0.57	0.52	0.44	0.42
Trout toxicity % compliance	98.3	94.3	98.0	98.1	100
Snowflake (all figures are for full year)					
TSS kg/day	5,267	3,983	2,941	1,256	4,009
TSS kg/adt	6.4	5.0	3.7	2.0	3.5

1 Increased TSS and BOD at Port Alberni were due to discontinued use, in August 2012, of a wastewater treatment lagoon which Catalyst has agreed to sell to the City of Port Alberni (see page 18). This lagoon is not required to meet effluent quality standards due to the installation of additional treatment infrastructure at the mill in 1993 and subsequent production closures. TSS and BOD levels in late 2012 remained well below permit levels of 5.84 and 3.25 kg/adt respectively, which in turn are less than half the standard permit levels applicable at other mills in British Columbia. The mill expects to maintain its long-standing 100% compliance performance with these requirements.

2 See discussion page 33.

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.

SOLID WASTE TO LANDFILL (BY MILL)

(cubic metres per air-dried tonne)	2012	2011	2010	2009	2008
Crofton	0.056	0.054	0.060	0.059	0.060
Port Alberni	0.083	0.100	0.072	0.074	0.072
Powell River	0.042	0.035	0.025	0.028	0.035
Snowflake ¹ (all figures are for full year)	0.901	0.269	0.260	0.210	0.355

1 See discussion page 39.

WATER AND ENERGY USE (BY MILL)

	2012	2011	2010	2009	2008
Crofton ¹					
Water use m ³ /adt	76	79	85	71	73
Fuel energy usage GJ	18,216,179	17,904,394	15,593,050	8,395,893	17,298,684
Fuel energy intensity GJ/adt	26.45	26.19	26.13	18.10	23.75
Electricity usage MWh	1,341,168	1,349,631	1,248,957	1,135,131	1,367,436
Electricity intensity MWh/adt	1.95	1.98	1.77	2.26	1.58
Total energy usage excluding self-generated electricity GJ ²	21,998,426	21,967,887	19,389,570	12,173,632	21,442,651
Total energy intensity excluding self-generated electricity GJ/adt	31.94	32.22	32.49	26.25	29.44
Port Alberni					
Water use m ³ /adt	66	69	72	78	75
Fuel energy usage GJ	4,654,171	4,796,691	4,629,396	4,475,620	4,120,219
Fuel energy intensity GJ/adt	14.35	15.34	14.66	15.34	15.31
Electricity usage MWh	837,768	823,184	843,236	742,641	674,704
Electricity intensity MWh/adt	2.58	2.63	2.67	2.55	2.51
Total energy usage excluding self-generated electricity GJ ²	7,391,672	7,504,517	7,462,787	6,989,651	6,549,153
Total energy intensity excluding self-generated electricity GJ/adt	22.80	24.00	23.64	23.96	24.33
Powell River					
Water use m³/adt	72	75	71	73	79
Fuel energy usage GJ	8,968,754	6,642,139	6,187,485	5,947,653	5,928,542
Fuel energy intensity GJ/adt ³	20.08	14.99	13.37	12.96	13.25
Electricity usage MWh	1,3/1,250	1,386,901	1,421,458	1,414,846	1,347,160
Electricity intensity MWh/adt	3.07	3.13	3.07	3.08	3.01
Total energy usage excluding self-generated electricity GJ ²	13,167,571	11,137,715	10,904,853	10,646,636	19,595,812
lotal energy intensity excluding self-generated electricity GJ/adt ³	29.48	25.13	23.57	23.19	23.69
Snowflake (all figures are for full year)					
Water use m ³ /adt	62	64	61	62	45
Fuel energy usage GJ	4,066,513	7,480,193	7,783,613	5,959,461	8,249,652
Fuel energy intensity GJ/adt	18.47	25.92	26.63	25.68	20.58
Electricity usage MWh	289,538	372,847	375,247	269,302	382,974
Electricity intensity MWh/adt	1.32	1.29	1.28	1.16	0.96
Iotal energy usage excluding self-generated electricity GJ ²	4,363,520	/,6/8,/62	/,9/6,598	6,057,494	8,379,252
iotal energy intensity excluding self-generated electricity GJ/adt	19.82	26.61	27.29	26.10	20.90

1 Comparability with earlier 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).

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

3 Fuel and total energy use were impacted by increased electricity generation at Powell River, see page 29.

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.

ENERGY INITIATIVES

USING LESS

Bypassing a cleaning stage during pulp production for internal mill use enabled the Crofton mill to save 9,900 MWh/yr of energy. And since it was possible to do so using existing piping, the capital cost was zero. Implementation involved tightly controlled ISO 9001-based quality trials, conducted in close collaboration with select customers. This provided certainty that – with current mill configurations and processes – the cleaning stage could be eliminated with no product quality impact. The avoided energy use has an annual value of about \$730,000.¹

GENERATING MORE

A new software-based control program implemented at Port Alberni resulted in a "just right" approach to use of the exhaust steam on the paper dryers. Previously, this steam was used at an unvarying 65 pounds per square inch. But it's now used at the pressure needed for efficient drying at a given point in time, which varies based on the grade being produced. After implementation, the required pressure averaged less than 55 PSI. That left more energy in the turbine from which the steam is extracted, and increased the mill's self-generation. While the generation boost can't be precisely quantified, it's estimated at 4,350 MWh/yr, representing a savings of about \$320,000.¹

TOTAL KEY MATERIALS USED AS TONNES (CORPORATE WIDE)

	2012	2011	2010	2009	2008
Water ¹	159,570,826	142,416,387	141,164,553	132,107,490	176,518,631
Wood chips and pulping logs	1,673,561	1,652,199	1,558,187	1,094,795	2,207,406
Hog fuel	748,813	680,023	682,279	606,871	541,421
Fossil fuels ²	309,339	407,176	407,749	337,250	368,684
Old newspapers and magazines	244,604	334,443	286,566	456,751	530,225
Precipitated Calcium Carbonate	117,457	123,651	122,468	119,825	117,288
Clay	75,289	75,307	64,692	60,129	77,035
Oxygen	55,919	57,832	62,432	46,282	92,869
Sodium Hydroxide	30,126	30,803	30,764	23,084	47,815
Hydrogen Peroxide	17,927	17,911	18,143	21,928	29,198
Sodium Chlorate	17,552	18,425	16,208	5,730	29,227
Sulphuric Acid	15,611	15,593	13,605	7,387	23,822
Starch	10,933	10,566	9,826	10,137	13,409
Silicate	10,533	11,217	11,599	16,562	18,973
Sulphur Dioxide	8,691	8,589	9,079	10,460	11,168

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. The measure shown above was impacted by increased electricity generation at Powell River, which required additional cooling water use, see page 29.

2 Fossil fuels are also reported as gigajoules of heating value on page 29.

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

PRODUCTION (BY MILL)

(tonnes of product)	2012	2011	2010	2009	2008
Crofton FIK Falls (closed operation)	688,722	681,910	596,752	463,782 53.048	728,333 565 762
Paper Recycling (closed operation)	-	-	3,774	125,266	130,880
Port Alberni	324,231	312,675	315,689	291,757	269,177
Powell River	446,732	443,242	462,669	459,089	447,314
Snowflake (closed September 30, 2012)	220,118	288,566	292,256	232,106	400,898

These figures quantify the operating-platform and production-level changes that impact environmental performance, particularly as measured in terms of absolute emissions.

MATERIALS SOURCED FROM WASTE (% 2012)



- WOOD CHIPS AND PULPING LOGS
- HOG FUEL
- OLD NEWSPAPERS AND MAGAZINES
- OTHER MATERIALS
 - 79% TOTAL SOURCED FROM WASTE

Total excludes water consumption and includes 37,162 tonnes of other materials (not listed above) used in smaller amounts.

REPORTED NPRI EMISSIONS (CORPORATE WIDE)

Not including speciated PAHs and Part 5 VOCs (tonnes)	2011	2010	2009	2008	2007
Carbon Monoxide	2,846	2,490	1,755	2,924	3,137
Sulphur Dioxide	2,337	1,941	1,109	4,242	5,034
Nitrogen Oxides	1,764	1,652	1,409	2,399	2,353
Volatile Organic Compounds (VOCs) - total	977	876	621	1,273	1,356
Hydrochloric Acid*	894	917	551	841	953
Methanol*	536	488	308	729	649
Total particulate	401	499	245	801	750
Nitrate Ion	375	283	272	201	190
Phosphorus	363	257	285	449	591
PM 10	337	429	210	667	653
PM 2.5	238	305	150	471	529
Manganese*	217	176	185	383	276
Total reduced sulphur	188	173	70	201	276
Ammonia	119	98	68	261	376
Chlorine Dioxide	86	108	41	115	81
Hydrogen Sulphide	76	77	36	74	82
Zinc	60	43	51	56	63
Sulfuric Acid*	37	38	34	41	12
Acetaldehyde	29	15	-	-	-
Phenol	29	18	-	-	-
Carbonyl Sulphide	10	-	-	10	11
Barium Compounds*	10	9	14	22	-
(kilograms)					
Lead*	3,028	2,819	3,126	4,021	3,078
Arsenic	864	707	960	925	1,353
Sum of PAHs (17)	501	245	134	541	685
Hexavalent Chromium Compounds	213	234	320	592	882
Cadmium	129	104	131	219	244
Mercury*	31	23	34	28	5
(grams)					
Hexachlorobenzene (HCB)	694	204	175	414	579
Dioxins and Furans*	40	28	31	25	42

* 2008 figures include full-year releases from Snowflake; barium is reported at Snowflake only.

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, 2012 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.

REGULATORY COMPLIANCE

A total of 65 events in the following three categories occurred at our operations in 2012:

- Permit non-compliances exceedances of specific limits or operating parameters defined in a regulatory permit
- > Reportable releases accidental releases which are required to be reported to regulatory authorities due to the source or the nature of the material involved
- > Administrative errors involving such matters as mechanical or procedural errors resulting in missed testing samples, but with which no known permit exceedance or release is associated

All such instances are promptly reported to regulatory authorities, and the root causes are then analyzed in an effort to prevent recurrence. Using a methodology derived from our ISO environmental management systems, we have classified all such events in 2012 by significance, based on the level of risk to humans and the environment, and the potential for legal sanctions. More details are provided on the facing page relating to each of the 19 events in the "medium" classification (no "high" classified events occurred in 2012).

EVENTS BY IMPACTED ENVIRONMENT (corporate wide)



2012 EVENTS (65 TOTAL)

Permit Non-Compliance	37	
Reportable Release	19	
Administrative Error	9	

IMPACTED ENVIRONMENT

Water	Air	Land
24	13	0
6	11	2
5	2	2

SIGNIFICANCE

Low	Medium	High
21	16	0
16	3	0
9	0	0

EVENTS BY OPERATION

	Crofton	Elk Falls	Port Alberni	Powell River	Snowflake
2012	19	11	1	26	8
2011	28	2	0	12	13
2010	21	3	3	5	39
2009	8	2	4	12	0
2008	12	5	1	14	0

Total events for Crofton in 2011 have been re-stated. Additional guidance received during an annual review in early 2012 resulted in the identification of 11 events which had not previously been considered as such by either Catalyst or regulators. These events primarily related to operating rates during stack testing and all were administrative in nature and not associated with any releases or known environmental impacts. Testing procedures were revised, and there were no further events of this type after Q1 2012.

SIGNIFICANT EVENTS (19 "MEDIUM" EVENTS)

CROFTON

Bleach plant chlorine dioxide limits were set in 2007. Subsequent monitoring improvements at the mill revealed that, contrary to the understanding in 2007, emissions exceeded the limits. As a result, there were four air-related permit noncompliances in 2012, one for each quarter, as the mill continued its efforts to bring performance within the limits. Compliance may ultimately require installation of additional emission scrubbing equipment; however, progress was made in 2012 based on further improved bleach-usage control, and there are plans in 2013 to blend chlorine dioxide and total reduced sulphur emissions, which mutually destruct when combined.

Two water-related permit non-compliances occurred based on toxicity tests in which sensitive freshwater species are exposed to undiluted samples of mill discharges.

- Investigation of the first suggested a previously unknown sensitivity on the part of the test species to additives used to make river water drinkable. (The test species was a water flea and parallel testing involving trout did not indicate toxicity.) Additive usage was modified and testing procedures refined to better ensure accuracy. There was no repeat of the toxicity finding during subsequent testing later in the year.
- > The second involved surface runoff and leachate which is collected in a ditch and pumped for treatment. Ditch overflows, which commonly occur during storms, are authorized by permit and have not previously resulted in toxicity issues. However, they occurred more frequently during 2012 due to poor pumping efficiency and resulted in one test failure. Pumping capacity was improved to ensure consistent treatment, and a ditch system assessment and re-design was pending at year-end.

ELK FALLS (CLOSED OPERATION)

Elk Falls had nine non-compliances with the permit limit for pH levels in its effluent, due primarily to mechanical issues. (This mill has not operated since 2009, but treatment of small volumes of landfill leachate continues.) While any single event of this type is of low significance, the final five were deemed to be of medium significance due to recurrence. Corrective actions were taken in response to each incident and there was consistent in-compliance performance from late August onward.

POWELL RIVER

Poor performance at the secondary effluent treatment plant led to three permit noncompliances relating to total suspended solids, and two relating to BOD. It was found to be a result of process additives that were impacting micro-organisms used in the treatment process. Key corrective actions are itemized on page 33, in addition to which new staff resources were assigned to water-related issues.

A total mill power outage resulted in a release of a minor undetermined amount of material to the ocean (two low significance noncompliances also occurred). The outage was caused by an equipment failure at a substation linking the mill to the provincial electricity grid. Root cause analyses relating to all three events, and a regulatory investigation, were underway at year-end.

The following two medium-significance reportable releases also occurred. In both cases, specific equipment failures and/or operational errors have been identified and corrective actions taken.

> An overflow during maintenance work at a pump station resulted in a release of 16.5 m³ of material to the ocean. Causes were found to involve unconventional pump wiring and incorrect default settings. This event resulted in receipt of an advisory letter from regulatory authorities. > Loss of power at a pump station resulted in a release of approximately 100 m³ of material to the ocean. The initial outage resulted from a bird flying into the electrical equipment, while the combination of a faulty valve and improper configuration relative to an alternative power source prevented the pump from restarting. A regulatory investigation was underway at year-end.

AUDIT, ODS

A semi-annual independent audit dealing with regulatory compliance was conducted at all mills and the Surrey Distribution Centre in 2012. Total high-priority action items decreased to 11 from 14 in 2010. Powell River was an exception to that improving trend, but the report noted that additional environmental-management staffing there in 2012 should help improve performance.

Reportable releases (>10 kg) of ozonedepleting substances (ODS) from Canadian operations totalled 62 kg in 2012, compared to 21 in 2011. These releases occurred at Crofton and Powell River, where complete replacement of equipment containing larger volumes of ODS remained pending. There were additional ODS releases, each of which were below the reportable threshold, of 99 kg from Canadian operations. Snowflake had total ODS releases of 236 kg, compared to 217 kg in 2011, none of which were reportable to regulatory authorities.

PENDING DEVELOPMENTS

Development of a new national Air Quality Management System in Canada, encompassing emissions generated by Catalyst mills, proceeded in 2012. Finalization of standards remained underway at year-end, and Catalyst was participating in an industry initiative to assess potential impacts.

ADVANCING TRANSPARENCY AND COMMUNICATING PROGRESS

UN GLOBAL COMPACT AND GLOBAL REPORTING INITIATIVE INDEX

		HUMAN RIGHTS	LABOUR Standards	ENVIRONMENT	ANTI-CORRUPTION	STRATEGY AND ANALYSIS	ORGANIZATIONAL Profile	REPORT Parameters	GOVERNANCE	ECONOMIC	ENVIRONMENTAL	LABOUR Practices	HUMAN RIGHTS	SOCIETY	PRODUCT Responsibility
REPORT SECTION	PAGES		UN	IGC						G	RI				
Introductory Materials	Up to 3					٠									
Message from the President	4-5					٠									
Bringing the Pieces Together	6-7					٠									
Safety	10-11											•			
Workforce	12-14						٠					٠			
Engaging with Governments	15													٠	
Distributing Value	16-17														
Local Fabric	18-19									٠					
Customers & Competitiveness	22-25										٠				٠
Energy	28-29			٠							٠				
Wood Fibre	30-31										•				
Water	32-33									•					
Greenhouse Gases	36-37														
Particulates	38														
Solid Waste	39														
Environmental Data Tables	40-47														
Regulatory Compliance	48-49														
Detailed GRI Index Online				٠							٠	٠	٠	٠	

Catalyst is among a minority of companies in the world that report on environmental, social and governance performance in an annual sustainability report and by other means. This voluntary transparency reflects our company's commitment to more fully inform all stakeholders on factors of importance to our business and society.

This report constitutes Catalyst's Communication on Progress as a signatory to the United Nations Global Compact (UNGC), a corporate citizenship initiative, and was developed using the G3 Guidelines of the Global Reporting Initiative (GRI), a leading sustainability reporting framework. The table above indicates linkages between report sections and 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/sustainabilityreports. We self-declare our disclosure to GRI Application Level B.



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

We welcome feedback on its contents.

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READ MORE ONLINE > Our annual financial report for 2012 is available in the Investor Relations section of our website.

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 lin 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 form 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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13	Salm	on	11	Employees		
16	Resp	onse	12	Sage		

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Energy (Cal)	696
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EMISSIONS	
Greenhouse Gas (g)	
Air Particulate (mg)	
Effluent BOD (mg)	59
Solid Waste (cm ³)	11

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