



taking the initiative
2007 SUSTAINABILITY REPORT



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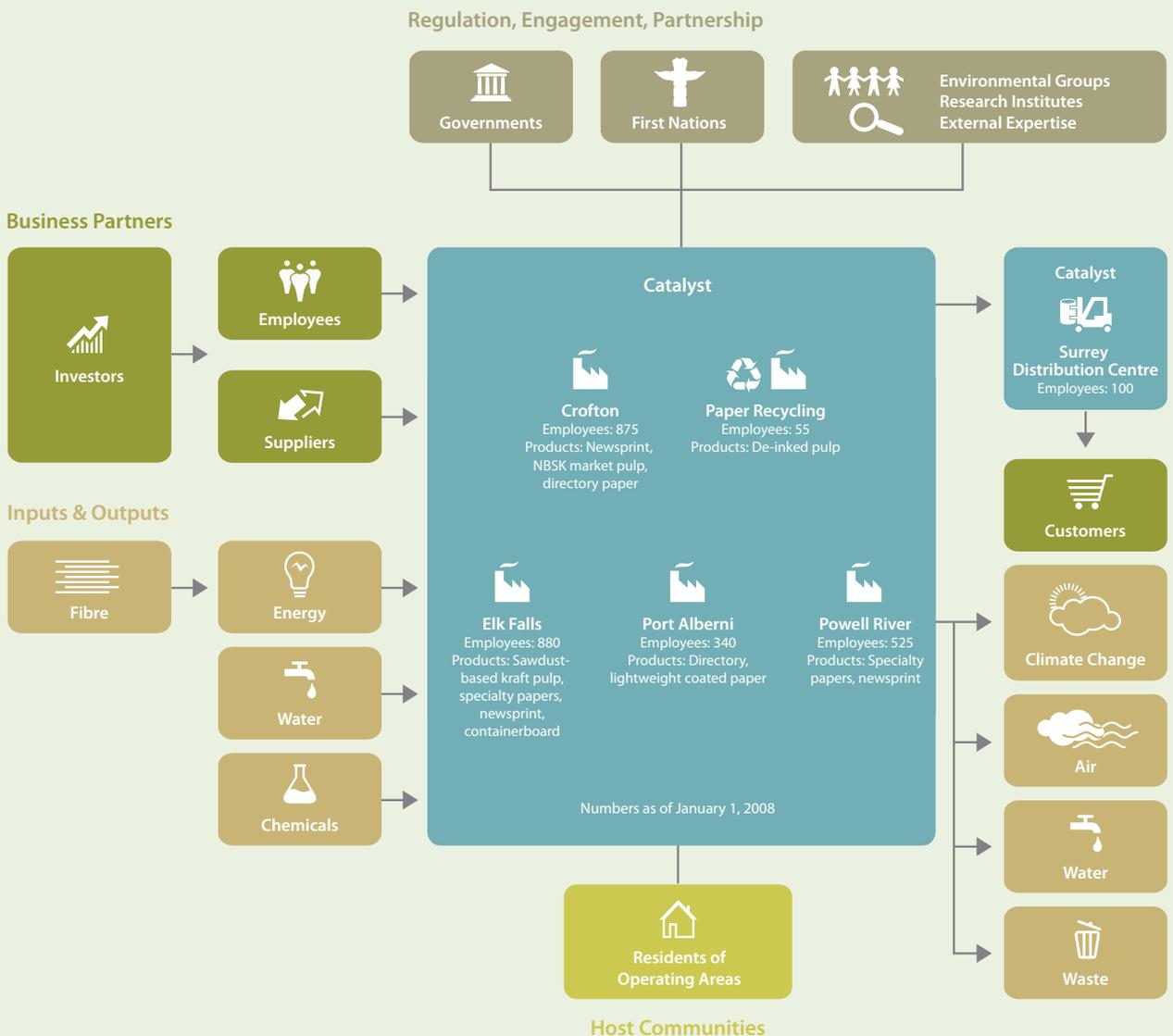
Somass River, Port Alberni

about this report

This is Catalyst Paper's fifth annual stand-alone accountability or sustainability report. The content has been determined with reference to external guidelines, such as the Global Reporting Initiative's (GRI) G3 Guidelines, and to relevant charters to which the company is a signatory, such as the United Nations Global Compact. This report is part of a broader and ongoing disclosure process, which includes the annual report and www.catalystpaper.com. Unless otherwise stated, the information in this report covers the period January 1, 2007, to December 31, 2007, and pertains to all of Catalyst's wholly-owned operations in British Columbia and to its world-wide sales. Reporting scope and measurement methods remain essentially unchanged relative to the last report. Indications are provided, where deemed necessary, regarding calculation methodologies, and any issues involving restatement or affecting comparability. **Catalyst self-declares its corporate disclosure process to GRI Application Level C.**

operating environment

Sustainable and socially responsible business practices must be informed by a holistic understanding of the environment within which a company operates. Catalyst's understanding of its environment is reflected below.



The icons in this diagram are used throughout this report to help readers readily identify related information. More information about Catalyst's financial performance is available in its annual report (see www.catalystpaper.com).

Taking the initiative to set ourselves apart

Competitive advantages

- Low carbon footprint and lower fossil fuel cost exposure due to an 87 per cent renewable energy mix and self-generating capacities
- Acknowledged leadership in carbon reductions – 69 per cent reduction achieved from 1990 levels – and in carbon accounting and disclosure
- Market leadership with launch of manufactured carbon-neutral Catalyst Cooled paper
- Expertise and strong capacity related to recycled fibre production and use
- Diversified products, with emphasis on higher-value and more profitable specialty papers and environmentally preferred lighter basis weights (available across grades)
- Third-party certifications: comprehensive ISO certifications (9001 quality standard, 14001 EMS standard, 14064 GHG standard); PricewaterhouseCoopers chain-of-custody verification re certified fibre; and Forest Stewardship Council (FSC) post-consumer waste certification of recycled fibre
- Well-located manufacturing operations within proximity of key North American markets
- Flexible transportation network, including company-operated distribution centre and effective road, rail and ocean connections to North American, Latin American, Western European and Asian/Australasian markets
- Collaborative relationships with environmental and other non-governmental organizations, and constructive labour relations

Third-party recognition

- Co-recipient – along with the Government of British Columbia, indigenous communities, environmental groups and other forest products companies – of “Gift to the Earth” recognition from the World Wildlife Fund (WWF), in connection with the conservation and management agreement reached for the Great Bear Rainforest
- Selected for inclusion in the Jantzi Social Index – a basket of 60 companies meeting defined environmental, social and governance investment-screening criteria
- Top forest products company in The Globe and Mail Report on Business magazine’s annual ranking of socially responsible companies
- Inclusion in Corporate Knights magazine’s annual list of Canada’s 50 Best Corporate Citizens
- One of two top-ranked companies in the natural resources category in the Jantzi Research/Maclean’s magazine Corporate Social Responsibility Report
- Recipient of the Metafore Product Innovation Award, in recognition of the launch of Catalyst Cooled manufactured carbon-neutral paper
- The only forest products company in the Conference Board of Canada’s Climate Disclosure Leadership Index, recognizing transparency regarding emissions and reduction efforts
- Recognized by the Canadian Institute of Chartered Accountants (CICA) for excellence in financial and corporate reporting, including top ranking for sustainability and governance disclosure
- Recipient (Crofton Division) of a Canadian Industry Program for Energy Conservation Leadership Award from Natural Resources Canada

key performance statistics

Social	Change	2007	2006	2005
Lost-time injury frequency ¹	▲	2.00	1.39	1.21
Medical incident rate ²	▲	3.67	3.62	3.03
Employee population ³	▼	3,038	3,673	3,781
Payroll (\$ millions) ⁴	▼	304	316	317
Charitable donations (\$ thousands)	▼	239	320	345

Economic (\$ millions)	Change	2007	2006	2005
Total taxes paid	▼	49.4	53.5	55.5
R&D spending	▲	2.9	2.7	2.6
Total sales	▼	1,714.6	1,882.5	1,823.9
Net earnings (loss)	▼	(31.6)	(15.9)	(25.6)

Environmental	Change	2007	2006	2005
Greenhouse gas emissions ⁵	▲	430,914	415,288	398,521
Total reduced sulphur (TRS) emissions ^{6,7}	▲	154	134	136
Particulate emissions ^{6,8}	▼	755	1,193	1,109
Biochemical oxygen demand (BOD) ⁶	▼	1,596	1,828	3,038
Total suspended solids (TSS) ⁶	▼	3,490	3,716	4,237
Water use (m ³) ⁹	▼	175,027,227	193,620,156	202,775,937
Water use (m ³ /tonne)	▼	70	71	74
Fuel energy use ^{10,11}	▼	39,720,324	46,503,816	45,161,744
Electricity use ¹²	▼	4,940,371	5,491,260	5,445,368
Solid waste disposal ¹³	▼	154,475	166,249	164,517

- 1 Number of lost-time injuries per 200,000 hours worked
- 2 Number of medical incidents per 200,000 hours worked
- 3 Employee figures for 2006-2007 are as of January 1 (2007 and 2008, respectively) to account for acquisition and restructuring impacts; figures include vacancies
- 4 Payroll figures include all salaries and wages paid, excluding benefits and severance; figures for 2005-2006 have been updated to reflect these criteria
- 5 Tonnes CO₂e per year
- 6 Tonnes per year

- 7 TRS increases occurred primarily at Crofton and were due to operational issues at one of the recovery boilers and at a pulping line
- 8 Based on actual test results; NPRI data may differ because they include other sources and utilize emissions factors
- 9 Figures updated to reflect accounting adjustments
- 10 Gigajoules – includes fossil fuels and biomass
- 11 Figures for 2005-2006 updated to include some fuels previously excluded from the calculations at one division
- 12 Megawatt-hours – purchased and self-generated
- 13 Cubic metres per year

A complete glossary of terms and definitions is on page 53

This report contains forward-looking statements. Forward-looking statements are statements, other than statements of historical fact, that address or discuss activities, events or developments that Catalyst Paper expects or anticipates may occur in the future. These forward-looking statements can be identified by the use of words such as “anticipate”, “could”, “expect”, “seek”, “may”, “likely”, “intend”, “will”, “believe” and similar expressions or the negative thereof. These forward-looking statements reflect management’s current views and are based on certain assumptions and factors management believes are appropriate in the circumstances, including assumptions that there will be no material change to the regulatory environment in which the company operates, capital budgeted for certain goals will be available and existing relationships with stakeholders will be maintained. Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what benefit Catalyst will derive from them. No forward-looking statement is a guarantee of future results. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including technological and regulatory changes, cost constraints, Catalyst’s ability to successfully obtain operational and environmental performance improvements and other factors beyond its control. Catalyst disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

profile

Catalyst Paper Corporation is a leading producer of mechanical printing papers in North America, headquartered in Richmond, British Columbia, Canada.



Surrey Distribution Centre

The company also produces market kraft pulp and owns Western Canada's largest paper recycling facility. With five mills employing approximately 3,000 people at sites within a 160-kilometre radius on the south coast of British Columbia, Catalyst has a combined annual capacity of 2.4 million tonnes of product. Catalyst's common shares trade on the Toronto Stock Exchange under the symbol CTL.

TO OUR STAKEHOLDERS

taking the initiative in challenging times

More so than at any other time in our recent history, it was a year of challenges and change at Catalyst Paper during 2007. Times like these put sustainable and socially responsible business principles and practices to the test. This report reflects our commitment to share openly and on a continuing basis, how we are measuring up against social, environmental, as well as financial benchmarks.

At Catalyst, sustainability is a discipline, not a department. It is part of who we are as employees, where our operations are based, and how we do business every day. We appreciate that our reputation is also an important asset that motivates investors, suppliers and customers to want to partner and do business with us.

As a participant in the United Nations Global Compact, we know that our operations have significant impact on the natural environment and on various stakeholder groups. We are a major consumer of energy and other natural resources, an operator of large-scale industrial facilities, and a major source of employment and economic activity in our host communities.

To address the challenges of 2007, we tackled long-standing problems in new ways – developed fresh approaches through straight-forward dialogue with stakeholders and outside experts – and then took the steps required to strengthen our position in the marketplace and improve returns.

We reduced costs, focused on more profitable grades and market segments, and gained supply chain efficiency – factors on which our long-term business viability depends.



Richard Garneau
President and Chief
Executive Officer

We downsized our workforce by 15 per cent during 2007 – with another five per cent affected by an indefinite machine shutdown at Port Alberni. We know these steps are disruptive for the people involved and for the communities where they live.

We took these restructuring steps in as open and respectful a manner as possible, and worked with people to ease the impacts where we could. We fostered partnerships with municipalities and First Nations that hold promise over the longer term.

Our working relationship with unions was important during the past year. Landmark agreements reached with union locals at Port Alberni in late 2007 were the basis to restart the idled No. 4 paper machine in 2008 and to undertake a capital upgrade project which will help bring the mill's production costs to competitive levels.

In the environmental realm, we continued to improve the efficient use of resources like electricity and water. Where necessary, we responded aggressively to ensure regulatory compliance and we are working toward balanced solutions in areas such as waste management.

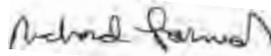
We continued to focus on energy and climate-change during 2007, and experienced both challenges and successes. Fibre-supply constraints meant we came in one per cent behind our previously achieved 70 per cent reduction-benchmark in greenhouse gas emissions, relative to a 1990 baseline.

In partnership with Rolling Stone magazine we were able to capture a market-leading position with the launch of Catalyst Cooled paper – a product whose manufacture adds no net carbon emissions to the atmosphere. This is the clearest demonstration to date of the potential to make our long-standing sustainability commitments visible and tangible to customers, which we see as a competitive advantage.

In 2008 we expect the introduction in British Columbia of a sweeping and comprehensive carbon tax regime. This development underscores the importance of our relentless focus on energy efficiency and on our drive to reduce carbon emissions by limiting fossil fuel use.

The initiatives that we took during 2007 were key to restoring stronger business fundamentals for the long-term. Still there are areas for improvement – safety performance was disappointing and we will redouble our focus on this priority in the year ahead. As always, we will take lessons from both achievements and failures, and we will continue to be guided by the views and feedback of our stakeholders.

Progress, while slow, has clearly been shown, and we trust that readers will find this reflected in the initiatives and results outlined in this report. Feedback is welcome and can be sent to contactus@catalystpaper.com.



Richard Garneau

President and Chief Executive Officer



Our executive team

top row (left to right):

Steve Boniferno, Senior Vice-President, Human Resources; Lyn Brown, Vice-President, Corporate Relations and Social Responsibility; W.R. (Ron) Buchhorn, Senior Vice-President, Operations; Robert H. Lindstrom, Vice-President, Supply Chain and Information Technology

bottom row (left to right):

Tom Crowley, Senior Vice-President, Sales and Marketing; Valerie Seager, Vice-President and General Counsel; David Smales, Vice-President, Finance and Chief Financial Officer

business fundamentals

Effectively and consistently translating principles and values into action requires a disciplined approach. The following are the key elements of the framework that Catalyst has put in place to manage and advance its efforts.

Governance

Effective governance structures are the key means by which investor interests are protected, and are increasingly recognized as important forms of assurance for all stakeholders of ethical corporate behaviour.

Catalyst's highest governing body is its board of directors. The board as a whole and each of its four committees (Audit; Environment, Health and Safety; Governance; and Human Resources and Compensation) operate under publicly disclosed administrative guidelines and terms of reference.

The Environment, Health and Safety Committee has particular responsibility for Catalyst's social responsibility performance, and receives a quarterly report from the vice-president, corporate relations and social responsibility, on this topic.

During 2007, the chair and all other board members – with the exception of CEO Richard Garneau and Denis Jean, a director who provided consulting services to Catalyst – were independent. Directors complete an annual questionnaire as a basis for board determination of their independence. Most director compensation is equity-based, and therefore aligned with corporate performance.

Evaluations of board effectiveness are undertaken annually. In 2007, the directors completed questionnaires as a basis for a report to the governance committee and full board.

Catalyst monitors and implements governance best practices on an ongoing basis, with reference to third-party guidance from groups such as the Toronto Stock Exchange and the Canadian Coalition for Good Governance.

More information is available in Catalyst's management proxy circular (www.sedar.com) and at www.catalystpaper.com (see "About Us").

Code of corporate ethics and behaviour

All aspects of Catalyst's operations – whether conducted by its board, executive or employees – are governed by the terms of a Code of Corporate Ethics and Behaviour. Issues addressed include financial-transaction recording, bribery, political contributions, conflict of interest, competition laws, and disclosure to shareholders and regulators.

Employees are asked to review and certify their acceptance of and compliance with the code on an annual basis. Catalyst also maintains a special telephone number by which employees can anonymously raise their concerns on accounting or other matters relating to the code. Periodic reminders are issued regarding the existence of this line. There was one call to the line during 2007, relating to a non-accounting matter.

Policies and management systems

Catalyst has developed formal policies governing many aspects of its pursuit of sustainable and socially responsible business practices. These policies are reviewed annually, and updated and supplemented when deemed necessary. Catalyst employees and business partners are made aware of policies applicable to them.

Key among current policies are:

- Code of Corporate Ethics and Behaviour
- Health and Safety Policy
- Environment Policy
- Statement of Principles for Fibre Sourcing
- Human Resources Policy Manual – including various policy statements on topics such as employment equity, harassment, and workplace ethics
- Corporate Donations Policy

Working with stakeholders

Catalyst defines stakeholders as individuals and organizations whose interests and actions intersect with its own across any of the social, economic and environmental aspects of the company's operations. This can involve either or both of being affected by Catalyst's activities, and having an impact on such activities.

Key stakeholders include: business partners (investors, employees, suppliers and customers); residents of operating areas; governments and First Nations; and a range of other groups, such as environmental non-governmental organizations (ENGOs), with which Catalyst engages by virtue of their expertise and interests.

The company strives to build respectful and mutually beneficial relationships with all of its stakeholders. Means and frequency of engagement are tailored to specific stakeholder groups, and to their interests and circumstances. Engagement is founded upon an open exchange of views and clear understandings of respective objectives.

Various sections of this report provide specific examples of how Catalyst has engaged with stakeholders and responded to their interests and expectations.

External initiatives and commitments

Catalyst subscribes to select, externally developed charters and principles and is a member of a variety of industry and multi-stakeholder groups. Catalyst makes such commitments when there is a close alignment with its values, and when they present opportunities for mutually advantageous collaboration.

Key among the external charters is the United Nations Global Compact, to which Catalyst became a signatory in 2006. The compact is the world's largest voluntary corporate responsibility initiative, setting out 10 principles in the areas of human rights, labour, the environment and anti-corruption.

Major associations and advocacy groups of which Catalyst was a member in 2007 included: Forest Products Association of Canada, Coast Forest Products Association, Business Council of British Columbia, and Canadian Business for Social Responsibility.

A Catalyst executive was also appointed during 2007 to the British Columbia government's blue-ribbon panel tasked with advising on climate-change policy.

Environmental partnerships are described in more detail on page 24.