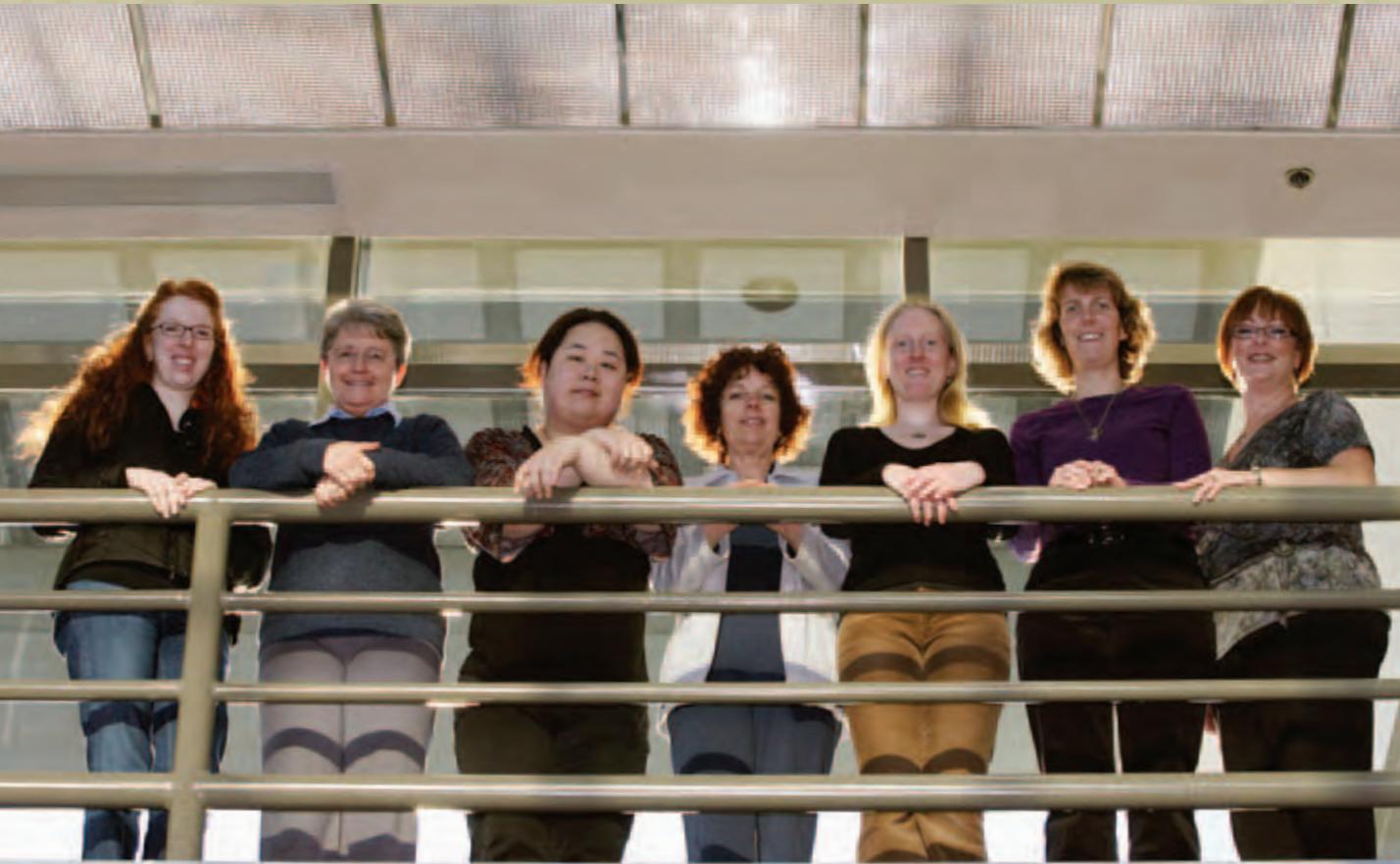


social performance

Catalyst relies on and contributes to the well-being of its employees and operating communities. Dialogue with First Nations helps to ensure respect for their particular interests, and to identify opportunities for partnership.



Members of the Richmond Employee United Way Campaign Team

2007 achievements

- Safety-perception survey and rollout of tiered safety audits
- Workplace flexibility agreements with unions in Powell River and Port Alberni
- Major workforce reduction (15 per cent) and restructuring
- Advancement of environmental partnership with We Wai Kai First Nation

2008 focal points

- Improvement in key safety measures
- Negotiation of new collective agreements covering most unionized employees
- Continued support for local and First Nations economic diversification, in part through surplus land and asset disposition



employees

Catalyst provides a safe and progressive workplace where employees have advancement opportunities and where values they can embrace as their own are evident.

Rewards

Compensation for non-unionized and salaried employees includes a competitive base salary, variable additional pay based on individual and corporate performance and a flexible benefits package.

All salaried employees also participate in a pension plan. For all those hired since 1994, this is a defined contribution plan to which the company contributes seven per cent of eligible earnings. Employees hired earlier had the option of continuing with a defined benefit plan to which the company makes annual funding contributions.

Compensation, benefits and pension entitlements for employees who are unionized are specified in collective agreements negotiated between the company and its unions. Most of the current agreements will expire in 2008.

In addition to core benefits – such as medical and dental coverage – the company provides career-succession- and retirement-planning resources. Access to personal counseling services is provided for both employees and their families.

Workforce development

Catalyst invests and engages in education and training by various means, to meet its human resource needs and to provide employees with career-advancement opportunities.

Workplace training initiatives within Catalyst include co-op student placements and apprenticeship training, an ongoing peer-driven operator technical training program and leadership training for those interested in supervision and management.

Externally, Catalyst has contributed to the development of relevant industry training programs offered in proximity to its operations. An educational assistance policy provides for reimbursement for approved courses taken by employees at local post-secondary institutions.

Catalyst also participates in outreach and recruitment initiatives such as career fairs and high school job-shadowing programs. Such efforts are particularly important in light of the aging workforce and increasing skills shortage – challenges impacting Catalyst's operations and industries across the country.

Working with unions

Catalyst has long-standing relationships with the Communications, Energy and Paperworkers of Canada; the Pulp, Paper and Woodworkers of Canada; and the Canadian Office and Professional Employees. Catalyst initiated a relationship with the Christian Labour Association of Canada in 2007, when it assumed direct operation of the Surrey Distribution Centre. These unions represent about three-quarters of Catalyst employees.

Total employees* and payroll**

Year	Workforce	Total paid (in millions)
2007	3,038	\$304
2006	3,673	\$316
2005	3,781	\$317
2004	3,806	\$321
2003	3,836	\$305

* Employee figures for 2006-2007 are as of January 1 (2007 and 2008, respectively) to account for acquisition and restructuring impacts; figures include vacancies

** Payroll figures include all salaries and wages paid, excluding benefits and severance; figures for 2003-2006 have been updated to reflect these criteria

Catalyst emphasizes transparency and open communication with its unions, in an effort to develop shared understanding of business challenges and collaborative solutions. This includes union leader participation in the mills' regular business reviews and a quarterly forum for discussion involving company executives, senior mill managers and local union representatives.

Collective agreements contain provisions regulating issues of key concern to unions and their members, such as minimum notice periods for technological change and job elimination. (See also "Workforce reductions", page 11.)

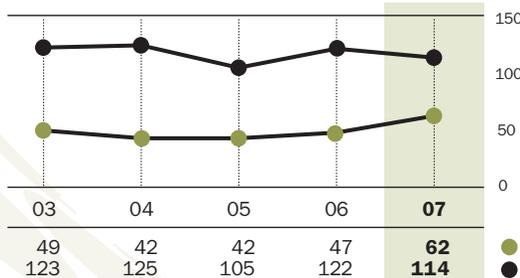
Safety

Catalyst seeks to make safety a consistently uncompromised value and to virtually eliminate injuries at its operations. While the commitment to that goal has not faltered, progress toward it has.

On an operation-specific basis:

- Performance declined across all five safety measures at Crofton Division.
- Performance declined across most measures at Elk Falls Division, although there was improvement in the number and frequency of medical incidents.
- While achieving improvement across most measures, Port Alberni Division saw increases in both the frequency of lost time injuries and in severity.

Total LTIs and MIs



● LTI – Total number of lost-time injuries (requiring employees to miss work)
 ● MI – Total number of medical incidents (requiring medical attention)

In my opinion ...

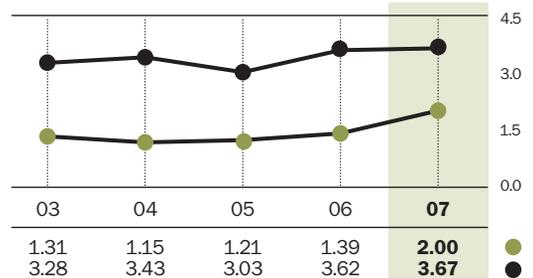
"I'm always optimistic that safety can get better. 2007 wasn't great across the company and it was terrible at our mill. With the shutdowns and other turmoil I don't think the focus was on safety from management and the people on the floor. It's always been said that world-class safety is driven from the top. Going into 2008 we need to have that focus from the top – and from the people on the floor too. Having a common perspective on safety is the only way to improve."

Dal Gulstene
 CEP 592 Safety Rep, Steam Plant
 Control Room Engineer
 Port Alberni Division



- Powell River Division achieved improvement in all safety measures except severity.
- Performance at both Paper Recycling Division and the Richmond head office (which includes safety results from a fibre reload facility) was largely consistent with 2006, except for an increase in the frequency of medical incidents at Paper Recycling.

LTI frequency and MIR



● LTI frequency – Number of lost-time injuries per 200,000 hours worked
 ● MIR – Number of medical incidents per 200,000 hours worked



Catalyst's 2007 safety performance is believed to be attributable in part to the extent of change impacting the workforce. Such changes have the potential to affect morale, focus, and perceptions of the corporate commitment to safety.

Results of an employee safety-perception survey conducted in 2007 confirmed that Catalyst has reached a plateau in terms of key mind-set issues, such as belief that all injuries are preventable, which research indicates are associated with improved performance.

Catalyst will seek improvement through a heightened emphasis on communicating the priority attached to safety, and on effective one-on-one conversations regarding specific issues. A new process of tiered audits – initiated at Powell River Division in 2007 and subsequently rolled out more broadly – shows promise in this regard.

While overall performance was disappointing, specific groups within the company registered significant safety achievements during 2007, and there were indications at year-end of broader improvement. Catalyst is committed to cut both lost time injuries and medical incidents in half by 2010, relative to a 2006 baseline.

Catalyst's framework for addressing safety-related issues includes a Health and Safety Policy, defined Safety Values and Beliefs, a Reporting and Investigation Policy, joint (union-management) and operation-specific Health and Safety Committees, and a company-wide Safety Forum.

Diversity and non-discrimination

Catalyst works to provide a non-discriminatory and welcoming work environment – consistent with societal expectations and legal provisions such as the British Columbia Human Rights Code.

The company has employment equity, harassment, and workplace ethics policies. Settlement and formal investigative procedures are available if employees believe they have been harassed based on any of the prohibited grounds (including, for example, race, sex, sexual orientation and age).

Catalyst has trained human rights officers at its four paper mills and at its head office. Basic human rights-related training is provided to employees, with additional training provided periodically at the supervisory level. Steps were initiated in 2007 to further formalize human rights-related training requirements.

During 2007, there were no discrimination-related actions brought against the company by external parties.

At year-end, Catalyst's board consisted of nine male directors and its executive consisted of six male employees and two female employees.

Catalyst does not track workforce trends relating to age or minority-group membership, due partly to privacy-related regulatory provisions.

FAIR results

In 2003, Catalyst implemented a regularly conducted Focus, Accountability, Involvement and Response (FAIR) Scorecard survey among employees. It provides insight into employees' perspectives on goals, responsibilities, engagement and feedback. Given the extent of workforce reductions and other significant changes during 2007, FAIR surveying was not conducted. It will, however, resume in 2008.

Workforce reductions

2007 was a year of goodbyes, with the permanent elimination of approximately 565 positions across Catalyst (about 15 per cent of the workforce), and with impacts for approximately 170 additional employees due to the indefinite shutdown of the A4 paper machine at Port Alberni.

The process was carried out in full compliance with collective agreement terms regarding notice periods and severance payments. And Catalyst worked with the unions to manage training and other requirements as some employees assumed new duties through seniority and bumping rights.

Additional measures were taken to facilitate employment transitions when feasible, such as hosting a career fair in Port Alberni. Salaried and non-unionized employees were typically provided with career counseling in addition to appropriate severance.

Constructive union-management relationships in Powell River, and a shared commitment to the future of the business, were a basis for agreements on workplace flexibility there. Early retirement and severance options supported smooth transitions and cost savings as employees left the operation.

There were many other changes for those who remained, including the head office relocation from Vancouver to Richmond, and the consolidation of some mill support functions in Nanaimo.

Ongoing dialogue about competitive business realities was intended to create a broad awareness of the rationale for cost and workforce reductions – steps that were implemented as respectfully and fairly as possible.

Local unions at Port Alberni voted in favour of new agreements in late 2007 putting competitive work practices into place and enabling the restart of the A4 paper machine in 2008, which will return the mill to a cost-effective two-machine operation.



Richmond Head Office

In my opinion ...

“Day-to-day the company pays me to do a job and that’s what I owe it. I don’t know that anyone can guarantee long-term employment anymore and I don’t hold the company accountable for tomorrow. But the process of job cuts has been handled poorly here. I got my layoff notice through a form letter and I’ve been working week-to-week since while seniority sorts itself out. We’re not getting as much information as we should be, and a lot of the people who could have helped manage this better are already gone.”

Kerry MacDonald
Third-Class Steam Engineer
Port Alberni Division



communities

Catalyst Paper is committed to being a good neighbour – one that listens to local concerns and supports community development in various ways.



Working with communities

Catalyst's operations have a significant impact on all key aspects of well-being within the mainly small coastal communities where they are situated. Accordingly, a keen interest in these operations typically extends throughout surrounding communities.

Catalyst works to maintain open lines of communication with local media, elected officials and other community leaders in its operating areas.

Operation-specific Community Advisory Forums (CAFs) are among the principal means of maintaining dialogue. CAFs are focused largely on environmental issues, with community participants determining the topics to be addressed.

Participation is diverse, spanning interests including local governments, homeowners, businesses, environmental groups, employees, health-care workers, and First Nations. More information is available at www.catalystpaper.com (see "Communities").

Communities in transition

While the small communities where Catalyst operates fit the classic definition of “mill towns” not long ago, today they are at varying stages of the challenging transition towards an economic future less firmly tied to the fortunes of a single industry.

There is a growing recognition of the importance and desirability of economic diversification. There is also a wider range of visions of the future – driven in part by the arrival of new residents from urban areas and from other regions and countries.

Catalyst looks for means of supporting economic diversification that align with its interests. Disposition of surplus lands and assets is one promising avenue. Catalyst also continues to urge its operating host communities to better align industrial property taxation with competitive considerations (given that taxation is much lower in many other jurisdictions), services consumed and the vision of a more diversified economic future.

Community economic impact

Notwithstanding ongoing transitions, Catalyst remains a highly significant source of economic activity within its operating communities – and anticipates that it will continue as such. Of particular note is its annual payroll (\$304 million in 2007) and annual property tax payments (\$32.3 million in 2007). Local purchases and other spin-off benefits from mill operations represent

In my opinion ...

“Some unused space near the boiler at the Catalyst mill could prove to be important to Port Alberni’s economic-development efforts. The local Wood Tech 21 Society is working to get this space leased for a bio-refinery. And a recent two-day community roundtable, focusing on the future of our local forest sector, really underscored the potential value of this opportunity. We see mutual benefits for Catalyst and the community.”

Pat Deakin
Economic Development Manager
City of Port Alberni

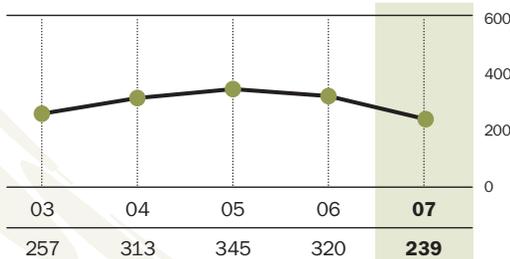


significant further contributions to local economies. (See also “Contributing to local and provincial economies”, page 21.)

Charitable giving

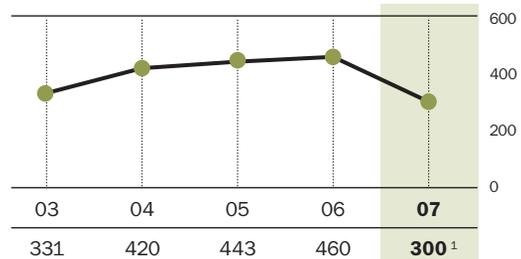
Despite challenging business circumstances, Catalyst recognizes the important role corporations play in supporting charitable initiatives, particularly at the community level. Each division establishes an annual donations budget. Requests are considered in the categories of community events, environment, safety and wellness, literacy and education, and youth-sport development.

Total charitable donations*
(\$ thousands)



* Donations to Canadian and US charities as reported for tax purposes

Total United Way donations**
(\$ thousands)



1 Includes amounts raised at Elk Falls during a deferred 2007 campaign extending into January 2008

** Employee plus corporate donations

Powell River: pursuing joint objectives

An innovative partnership involving Catalyst, the City of Powell River, and the Tla'Amin (Sliammon) First Nation advanced its potential in 2007 to become a cornerstone for future economic development and diversification in the region.

The three parties own PRSC Land Developments Limited, whose assets are 325 hectares of surplus mill lands bought from Catalyst in 2006. Timber was harvested from the lands in 2007 to provide operating funds for the partnership, while appraisals and other work proceeded in preparation for the sale and development of appropriate portions.

Public open houses in 2007 also provided greater transparency relating to the status and potential use of the lands.

Some of the PRSC lands will be preserved as a park, and the balance will be leveraged in support of improved land-use planning and new investment. The partnership has produced benefits for all its participants – including in Catalyst's case divestment of a dormant asset at a fair price, and a reduced municipal tax burden.

At the corporate level, Catalyst and its employees have been long-standing and significant participants in both the annual United Way Campaign and the Easter Seals 24-Hour Relay, which supports camping experiences for children with disabilities. The 2007 United Way campaign raised a total of \$300,495, reaching gold-level status for the 15th consecutive year.

Further long-standing support, largely in the form of a newsprint donation, is provided to the CanWest Raise-a-Reader campaign – a national children's literacy initiative.

In 2007, Catalyst made the final \$30,000 installment of a \$150,000 commitment to the library of Malaspina University-College in Nanaimo. Another \$30,000 installment was also made on a \$300,000 commitment to the Port Alberni Multiplex.

Scholarships

Catalyst annually provides 30 scholarships of \$1,000 each to children of employees and other qualifying students who are beginning full-time post-secondary studies, and an additional \$3,000 in scholarships specifically for students attending the British Columbia Institute of Technology.

An annual fundraiser involving customers and organized by Catalyst salespeople in memory of their late colleague Doc Stapleton, supports scholarships for graphic design students at California Polytechnic University. US\$16,390 in scholarship funds was raised in 2007.



Powell River Division



First Nations

By creating enduring partnerships with neighbouring First Nations, Catalyst helps address unique community needs and opens the door to mutual social, economic and environmental opportunities.

Cultural recognition

Catalyst has worked for a number of years to forge stronger relationships with the First Nations communities located near its mills. Efforts are ongoing to better understand the unique history, values, interests and aspirations of each First Nation – and to improve the alignment between these considerations and Catalyst’s operations.

In some cases, as with the Tla’Amin (Sliammon) First Nation in the Powell River area, the relationship is relatively long-standing and has been formalized in a cooperation protocol. Relationships with other First Nations are proceeding in the manner and on the timelines that are best-suited to the interests and priorities of each.

In all cases, Catalyst is guided by its recognition of the unique position and rights of aboriginal groups, and by its respect for their efforts to maintain their cultures and create more prosperous futures for their communities.

Developing business opportunities

Catalyst is a member of the Industry Council for Aboriginal Business, a multi-sector group working to advance shared prosperity for aboriginal and non-aboriginal British Columbians. Catalyst also seeks mutually advantageous business opportunities that can be developed in cooperation with its First Nation neighbours.

The PRSC Land Developments Limited Partnership at Powell River is the furthest advanced among such opportunities (see previous page). The partnership has expanded employment-creation potential and the economic land base for the Tla’Amin First Nation.

Catalyst entered into an agreement in 2007 with the Hupacasath First Nation, which is intended to be a basis for the transfer to it of ownership of two dams in the Port Alberni area.



Catalyst’s operation of these facilities is a legacy mainly of water-management responsibilities associated with a pulp mill closed several years ago. The Hupacasath interest relates to the importance of these dams to downstream salmon habitat management, and to the potential for small-scale hydroelectric generation at one of them.

Supply arrangements are another potential Catalyst-First Nations business relationship, and preliminary discussions regarding such opportunities proceeded during 2007.



Partners in the environment

Catalyst has continued to build an innovative relationship with the We Wai Kai First Nation in the Campbell River area. The focal point is a joint environmental committee with equal Catalyst and We Wai Kai representation.

The committee met on five occasions in 2007 to advance the parties' mutual understanding of environmental interests and performance, and to address immediate priorities defined in its charter.

Key among these is the question of air-quality impacts associated with a 2005 permit amendment authorizing Catalyst to use coal as a supplemental fuel. Catalyst has established additional air monitoring within the We Wai Kai village site, and an appeal of the amendment is in abeyance.

In 2007, Catalyst hired a We Wai Kai member to work as an environmental specialist within the local mill, and to provide a further point of two-way liaison.

Catalyst also consulted in 2007 with the We Wai Kai – and the broader First Nations community in the Campbell River area – in connection with an application for a major landfill expansion.

At Crofton Division, Catalyst retained a member of the Halalt First Nation to be on site as an environmental monitor during dredging work. The individual brought particular expertise by virtue of having a managerial role in the Halalt's shellfish harvest.

Dialogue with First Nations on environmental issues also occurs in the context of Community Advisory Forums, water-management planning processes and permit applications.