

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 20-F**

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR  
(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR  
ENDED DECEMBER 31, 2014**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report**

**FOR THE TRANSITION PERIOD FROM TO**

COMMISSION FILE NUMBER 000-49751

**Catalyst Paper Corporation**

(Exact name of Registrant as specified in its charter)

**N/A**

(Translation of Registrant's name into English)

**British Columbia, Canada**

(Jurisdiction of incorporation or organization)

**2<sup>nd</sup> Floor, 3600 Lysander Lane**

**Richmond**

**British Columbia, Canada V7B 1C3**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:  
None.

Securities registered or to be registered pursuant to Section 12(g) of the Act:  
Common Shares.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:  
None.

The number of outstanding shares of each of the issuer's classes of capital or common stock as of  
December 31, 2014 was:  
14,527,571

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒  
No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☐

Indicate by check which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☒

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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## **PART I**

Unless otherwise specified, "Catalyst", the "company", the "corporation", "we", "us", "our" and similar terms refer to Catalyst Paper Corporation and its subsidiaries and affiliates. Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars, references to "\$" and "dollars" are to Canadian dollars and references to "U.S.\$" and "U.S. dollars" are to United States dollars. As used in this annual report references to "tonnes" means metric tonnes, which is equivalent to 1,000 kilograms or 2,204 pounds (1.1023 tons) and the term "ton", or the symbol "ST", refers to a short ton, an imperial unit of measurement equal to 0.9072 metric tonnes.

### **ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT, ADVISERS AND AUDITORS**

#### **A. Directors and Senior Management**

Information not required for an annual report.

#### **B. Advisers**

Information not required for an annual report.

#### **C. Auditors**

Information not required for an annual report.

### **ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE**

Information not required for an annual report.

### **ITEM 3 KEY INFORMATION**

#### **CAUTIONARY STATEMENT WITH REGARD TO FORWARD-LOOKING STATEMENTS**

This annual report contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and forward-looking information within the meaning of Canadian securities laws (collectively, "forward-looking statements") including, without limitation, forward-looking statements concerning our strategy, plans, future operating performance, contingent liabilities and outlook. These statements relate to, among other things, analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Generally, forward-looking statements can be identified by the use of words or phrases such as "expects," "anticipates," "plans," "projects," "estimates," "assumes," "intends," "strategy," "goals," "objectives," "potential," or variations thereof, or stating that certain actions, events or results "may," "could," "would," "might" or "will" be taken, occur or be achieved, or the negative of any of these terms or similar expressions. These forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those expressed or implied, including, without limitation, the following risks and uncertainties discussed in this annual report and in Management's Discussion and Analysis for the financial year-ended December 31, 2014, which may be found on SEDAR at [www.sedar.com](http://www.sedar.com) and EDGAR at [www.sec.gov](http://www.sec.gov):

- The impact of general economic conditions in the countries in which we do business;
- Conditions in the capital markets and our ability to obtain financing and refinance existing debt;
- Market conditions and demand for our products (including declines in advertising and circulation);
- The implementation of trade restrictions in jurisdictions where our products are marketed;
- Fluctuations in foreign exchange or interest rates;
- Raw material prices (including wood fibre, chemicals and energy);

- The effect of, or change in, environmental and other governmental regulations;
- Uncertainty relating to labour relations;
- The availability of qualified personnel;
- The availability of wood fibre;
- Legal proceedings;
- The effects of competition from domestic and foreign producers; and
- The risk of natural disaster and other factors, many of which are beyond our control.

This list is not exhaustive of the factors that may affect any of our forward-looking statements. Our forward-looking statements are based on what management considers to be reasonable assumptions, beliefs, expectations and opinions based on information currently available to management. We cannot assure you that actual events, performance or results will be consistent with these forward-looking statements, and management's assumptions may prove to be incorrect.

Assumptions have been made with respect to our forward-looking statements, including those identified below, which could prove to be significantly incorrect:

- Our ability to develop, manufacture and sell new products and services that meet the needs of our customers and gain commercial acceptance;
- Our ability to continue to sell our products and services in the expected quantities at the expected prices and expected times;
- Our ability to successfully obtain cost savings from our cost reduction initiatives;
- Our ability to successfully integrate the recently acquired Biron and Rumford mills into our operations;
- Our ability to implement business strategies and pursue opportunities;
- Expected cost of goods sold;
- Expected component supply costs and constraints; and
- Expected foreign exchange and tax rates.

You are cautioned that the foregoing list is not exhaustive of all factors and assumptions which may have been used. Our forward-looking statements reflect current expectations regarding future events and operating performance and speak only as of the date hereof and we do not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change other than as required by applicable law. For the reasons set forth above, you should not place undue reliance on forward-looking statements.

### **Market and Industry Data and Forecast**

This annual report includes market share and industry data and other statistical information and forecasts that we have obtained from independent industry publications, government publications, market research reports and other published independent sources. Some data is also based on our good faith estimates, which is derived from our internal surveys, as well as independent sources. RISI, Inc., an independent paper and forest products industry research firm ("RISI"), is the source of a considerable amount of the third party industry data and forecasts contained herein. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. However, we cannot and do not provide any assurance as to the accuracy or completeness of included information and do not guarantee the accuracy or completeness of such information.

Forecasts are particularly likely to be inaccurate, especially over long periods of time. Although we believe these sources to be reliable, we have not independently verified any of the data nor have we ascertained the underlying economic assumptions relied upon therein.

## **Presentation of Financial Information**

Effective for the year ended December 31, 2009, we adopted U.S. generally accepted accounting principles ("U.S. GAAP") for the presentation of our consolidated financial statements for Canadian and United States reporting requirements. Prior to 2009, we had presented our annual and interim consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") with reconciliation in our annual consolidated financial statements to U.S. GAAP for material recognition, measurement and presentation differences.

In accordance with U.S. GAAP, an enterprise value was established for the company as of September 30, 2012, the end of the quarter following the effective date of our plan of arrangement under the *Companies' Creditors Arrangement Act* ("CCAA"), under fresh start accounting. This enterprise value was determined with the assistance of an independent financial advisor. References to Successor or Successor company refer to the company on or after September 30, 2012, and references to Predecessor or Predecessor company refer to the company prior to September 30, 2012.

## **A. SELECTED FINANCIAL DATA**

The following table sets forth consolidated historical financial and operating data for Catalyst Paper Corporation for the periods indicated. The financial statement data as of December 31, 2014, December 31, 2013, December 31, 2012, September 30, 2012, December 31, 2011 and December 31, 2010, for the years ended December 31, 2014 and 2013, the three months ended December 31, 2012 and nine months ended September 30, 2012, and the years ended December 31, 2011 and 2010 is derived from our audited consolidated financial statements in our annual report. This information should be read in conjunction with Operating and Financial Review and Prospects, which is included in the annual report. The financial information has been derived from consolidated financial statements that have been prepared in accordance with U.S. GAAP. All information provided below is in millions of Canadian dollars, except information related to volume, information per share, and revenue per tonne.

## CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) DATA

(In millions of Canadian dollars)

|                                                              | Successor               |                   |                                 | Predecessor                     |                          |                   |
|--------------------------------------------------------------|-------------------------|-------------------|---------------------------------|---------------------------------|--------------------------|-------------------|
|                                                              | Year ended December 31, |                   | Three months ended December 31, | Nine months ended September 30, | Years ended December 31, |                   |
|                                                              | 2014                    | 2013              | 2012                            | 2012                            | 2011                     | 2010              |
| <b>Sales</b>                                                 | <b>\$ 1,109.3</b>       | <b>\$ 1,051.4</b> | <b>\$ 260.5</b>                 | <b>\$ 797.7</b>                 | <b>\$ 1,079.7</b>        | <b>\$ 1,051.4</b> |
| <b>Operating expenses</b>                                    |                         |                   |                                 |                                 |                          |                   |
| Cost of sales, excluding depreciation and amortization       | 1,028.2                 | 970.9             | 245.6                           | 718.0                           | 970.7                    | 930.1             |
| Depreciation and amortization                                | 44.6                    | 47.0              | 12.9                            | 23.4                            | 105.5                    | 109.7             |
| Selling, general and administrative                          | 33.0                    | 33.2              | 7.7                             | 26.2                            | 40.3                     | 43.4              |
| Restructuring and change-of-control                          | 0.5                     | 1.2               | —                               | 5.3                             | 5.9                      | 25.3              |
| Impairment and other closure costs                           | 16.5                    | 86.9              | —                               | —                               | 661.8                    | 294.5             |
|                                                              | <b>1,122.8</b>          | <b>1,139.2</b>    | <b>266.2</b>                    | <b>772.9</b>                    | <b>1,784.2</b>           | <b>1,403.0</b>    |
| <b>Operating earnings (loss)</b>                             | <b>(13.5)</b>           | <b>(87.8)</b>     | <b>(5.7)</b>                    | <b>24.8</b>                     | <b>(704.5)</b>           | <b>(351.6)</b>    |
| Interest expense, net                                        | (35.5)                  | (37.4)            | (11.6)                          | (60.3)                          | (73.2)                   | (71.9)            |
| Foreign exchange gain (loss) on long-term debt               | (24.1)                  | (18.8)            | (3.2)                           | 24.0                            | (9.7)                    | 27.6              |
| Other income (expense), net                                  | 1.2                     | 14.9              | 0.1                             | (2.6)                           | (2.1)                    | (2.6)             |
| <b>Loss before reorganization items and income taxes</b>     | <b>(71.9)</b>           | <b>(129.1)</b>    | <b>(20.4)</b>                   | <b>(14.1)</b>                   | <b>(789.5)</b>           | <b>(398.5)</b>    |
| Reorganization items, net                                    | —                       | (1.2)             | (3.2)                           | 666.9                           | —                        | —                 |
| <b>Income (loss) before income taxes</b>                     | <b>(71.9)</b>           | <b>(130.3)</b>    | <b>(23.6)</b>                   | <b>652.8</b>                    | <b>(789.5)</b>           | <b>(398.5)</b>    |
| Income tax expense (recovery)                                | 0.4                     | 0.1               | 0.2                             | (1.1)                           | (8.4)                    | (19.8)            |
| <b>Earnings (loss) from continuing operations</b>            | <b>(72.3)</b>           | <b>(130.4)</b>    | <b>(23.8)</b>                   | <b>653.9</b>                    | <b>(781.1)</b>           | <b>(378.7)</b>    |
| Gain (loss) from discontinued operations net of tax          | —                       | 3.1               | (12.9)                          | (3.6)                           | (195.5)                  | (19.5)            |
| <b>Net earnings (loss)</b>                                   | <b>(72.3)</b>           | <b>(127.3)</b>    | <b>(36.7)</b>                   | <b>650.3</b>                    | <b>(976.6)</b>           | <b>(398.2)</b>    |
| Net (earnings) loss attributable to non-controlling interest | —                       | (0.3)             | 1.5                             | (31.9)                          | 2.6                      | 1.3               |
| <b>Net earnings (loss) attributable to the Company</b>       | <b>\$ (72.3)</b>        | <b>\$ (127.6)</b> | <b>\$ (35.2)</b>                | <b>\$ 618.4</b>                 | <b>\$ (974.0)</b>        | <b>\$ (396.9)</b> |

## CONSOLIDATED BALANCE SHEET DATA

(In millions of Canadian dollars)

|                                   | Successor          |          |                     |          | Predecessor        |          |
|-----------------------------------|--------------------|----------|---------------------|----------|--------------------|----------|
|                                   | As at December 31, |          | As at September 30, |          | As at December 31, |          |
|                                   | 2014               | 2013     | 2012                | 2012     | 2011               | 2010     |
| Working Capital <sup>1</sup>      | \$ 144.6           | \$ 153.6 | \$ 151.4            | \$ 203.7 | \$ 152.4           | \$ 212.0 |
| Property, plant and equipment     | 379.3              | 412.2    | 611.6               | 614.1    | 386.3              | 1,285.6  |
| Total Assets                      | 668.7              | 700.1    | 978.8               | 1040.1   | 737.6              | 1696.2   |
| Current portion of long-term debt | 3.0                | 2.0      | 6.6                 | 6.7      | 466.8              | 27.0     |
| Total debt <sup>1</sup>           | 329.1              | 303.8    | 428.6               | 465.6    | 842.3              | 810.9    |
| Shareholders' equity (deficiency) | (95.6)             | 12.9     | 116.3               | 144.9    | (593.6)            | 423.5    |

## CONSOLIDATED STATEMENTS OF CASH FLOWS DATA

(In millions of Canadian dollars)

|                                                    | Successor               |           |                                 | Predecessor                     |                          |           |
|----------------------------------------------------|-------------------------|-----------|---------------------------------|---------------------------------|--------------------------|-----------|
|                                                    | Year ended December 31, |           | Three months ended December 31, | Nine months ended September 30, | Years ended December 31, |           |
|                                                    | 2014                    | 2013      | 2012                            | 2012                            | 2011                     | 2010      |
| Cash flows provided (used) by operating activities | \$ 21.3                 | \$ (7.5)  | \$ 52.1                         | \$ (44.0)                       | \$ (71.5)                | \$ (44.1) |
| Cash flows provided (used) by investing activities | \$ (19.2)               | 31.4      | (6.2)                           | (3.4)                           | (17.7)                   | (4.5)     |
| Cash flows provided (used) by financing activities | \$ (3.3)                | \$ (30.3) | \$ (40.0)                       | \$ 34.9                         | \$ 18.9                  | \$ 60.9   |

## OTHER FINANCIAL DATA

(In millions of Canadian dollars, except per tonne)

|                                                          | Successor               |           |                                 | Predecessor                     |                          |           |
|----------------------------------------------------------|-------------------------|-----------|---------------------------------|---------------------------------|--------------------------|-----------|
|                                                          | Year ended December 31, |           | Three months ended December 31, | Nine months ended September 30, | Years ended December 31, |           |
|                                                          | 2014                    | 2013      | 2012                            | 2012                            | 2011                     | 2010      |
| Adjusted EBITDA <sup>2</sup>                             | \$ 47.6                 | \$ 46.1   | \$ 7.2                          | \$ 48.2                         | \$ 62.8                  | 52.6      |
| Adjusted EBITDA margin <sup>3</sup>                      | 4.3%                    | 4.4%      | 2.8%                            | 6.0%                            | 5.8%                     | 5.0%      |
| Weighted average common shares outstanding (in millions) | 14.5                    | 14.5      | 14.4                            | 381.9                           | 381.9                    | 381.8     |
| Basic and diluted earnings (loss) per share (in dollars) |                         |           |                                 |                                 |                          |           |
| - Continuing operations                                  | \$ (4.99)               | \$ (9.01) | \$ (1.55)                       | \$ 1.63                         | \$ (2.04)                | \$ (0.99) |
| Basic and diluted earnings (loss) per share (in dollars) |                         |           |                                 |                                 |                          |           |
| - Discontinued operations                                | —                       | 0.21      | (0.89)                          | (0.01)                          | (0.51)                   | (0.05)    |
| Common shares outstanding at end of period (in millions) | 14.5                    | 14.5      | 14.5                            | 14.4                            | 381.9                    | 381.8     |
| <b>Sales (000 tonnes)</b>                                |                         |           |                                 |                                 |                          |           |
| Specialty printing papers                                | 702                     | 762       | 207                             | 605                             | 838                      | 830       |
| Newsprint                                                | 347                     | 283       | 66                              | 198                             | 205                      | 236       |
| Pulp                                                     | 340                     | 328       | 74                              | 251                             | 308                      | 277       |
| <b>Average Sales Revenue per tonne</b>                   |                         |           |                                 |                                 |                          |           |
| Specialty printing papers                                | 864                     | 833       | 828                             | 833                             | 824                      | 812       |
| Newsprint                                                | 685                     | 679       | 666                             | 678                             | 689                      | 644       |
| Pulp                                                     | 779                     | 683       | 604                             | 637                             | 804                      | 813       |
| <b>Production (000 tonnes)</b>                           |                         |           |                                 |                                 |                          |           |
| Specialty printing papers                                | 708                     | 771       | 193                             | 613                             | 842                      | 836       |
| Newsprint                                                | 352                     | 289       | 65                              | 200                             | 208                      | 225       |
| Pulp                                                     | 344                     | 323       | 75                              | 243                             | 315                      | 273       |

### Notes to Selected Consolidated Financial Information

<sup>1</sup> Current portion of long term debt is included in total debt and excluded from working capital.

<sup>2</sup> Adjusted EBITDA is a non-GAAP measure. Adjusted EBITDA does not have a standardized meaning. Adjusted EBITDA as set forth above represents net earnings (loss) before net interest expense, income taxes, depreciation and amortization and impairment, foreign exchange gain (loss) on long-term debt, loss on repayment of long-term debt, other income (expense), and non-controlling interests. We focus on adjusted EBITDA as we believe this measure enables comparison of our results between periods without regard to debt service, income taxes and capital expenditure requirements. Adjusted EBITDA is also useful in analyzing our ability to comply with our debt covenants. As such, we believe it would be useful for investors and other users to be aware of this measure so they can better assess our operating performance. Adjusted EBITDA should not be considered by an investor as an alternative to net income, an indicator of our financial performance or an alternative to cash flows as a measure of liquidity. As there are no generally accepted methods for calculating adjusted EBITDA, this measure as calculated by us might not be comparable to similarly titled measures reported by other companies.

<sup>3</sup> Adjusted EBITDA margin is defined as adjusted EBITDA as a percentage of sales.

We have provided below a reconciliation of adjusted EBITDA to net earnings (loss) attributable to the company, which we believe is the most directly comparable U.S. GAAP measure.

| <i>(In millions of dollars)</i>                              | 2010       | 2011       | 2012     | 2013       | 2014      |
|--------------------------------------------------------------|------------|------------|----------|------------|-----------|
| Net earnings (loss) attributable to the Company              | \$ (396.9) | \$ (974.0) | \$ 583.2 | \$ (127.6) | \$ (72.3) |
| Net earnings (loss) attributable to non-controlling interest | (1.3)      | (2.6)      | 30.4     | 0.3        | –         |
| Net earnings (loss)                                          | (398.2)    | (976.6)    | 613.6    | (127.3)    | (72.3)    |
| Depreciation and amortization                                | 109.7      | 105.5      | 36.3     | 47.0       | 44.6      |
| Impairment                                                   | 294.5      | 661.8      | –        | 86.9       | 16.5      |
| Gain on cancellation of long-term debt                       | (0.6)      | –          | –        | –          | –         |
| Foreign exchange (gain) loss on long-term debt               | (27.6)     | 9.7        | (20.8)   | 18.8       | 24.1      |
| Loss on Powell River fire                                    | –          | 2.4        | –        | –          | –         |
| Other (income) expense, net                                  | 3.2        | (0.3)      | 2.5      | (14.9)     | (1.2)     |
| Interest expense, net                                        | 71.9       | 73.2       | 71.9     | 37.4       | 35.5      |
| Income tax recovery                                          | (19.8)     | (8.4)      | (0.9)    | 0.1        | 0.4       |
| Reorganization items, net                                    | –          | –          | (663.7)  | 1.2        | –         |
| (Earnings) loss from discontinued operations, net of tax     | 19.5       | 195.5      | 16.5     | (3.1)      | –         |
| Adjusted EBITDA <sup>1</sup>                                 | \$ 52.6    | \$ 62.8    | \$ 55.4  | \$ 46.1    | \$ 47.6   |

<sup>1</sup> Adjusted EBITDA is a non-GAAP measure. Adjusted EBITDA does not have a standardized meaning. Adjusted EBITDA as set forth above represents net earnings (loss) before net interest expense, income taxes, depreciation and amortization and impairment, foreign exchange gain (loss) on long-term debt, loss on repayment of long-term debt, other income (expense), and non-controlling interests. We focus on adjusted EBITDA as we believe this measure enables comparison of our results between periods without regard to debt service, income taxes and capital expenditure requirements. Adjusted EBITDA is also useful in analyzing our ability to comply with our debt covenants. As such, we believe it would be useful for investors and other users to be aware of this measure so they can better assess our operating performance. Adjusted EBITDA should not be considered by an investor as an alternative to net income, an indicator of our financial performance or an alternative to cash flows as a measure of liquidity. As there are no generally accepted methods for calculating adjusted EBITDA, this measure as calculated by us might not be comparable to similarly titled measures reported by other companies.

## B. EXCHANGE RATE DATA

### *Bank of Canada*

The following table sets forth certain exchange rates based upon the noon rate as quoted by the Bank of Canada. Such rates are set forth as, for the period indicated, U.S. dollars per Canadian \$1.00. On March 3, 2015, the noon rate was 0.8031 U.S. dollars per Canadian \$1.00.

|                                 | 2010   | 2011   | 2012   | 2013   | 2014   |
|---------------------------------|--------|--------|--------|--------|--------|
| Low .....                       | 0.9278 | 0.9430 | 0.9599 | 0.9348 | 0.8589 |
| High.....                       | 1.0054 | 1.0583 | 1.0299 | 1.0164 | 0.9422 |
| Period-end .....                | 1.0054 | 0.9833 | 1.0051 | 0.9402 | 0.8620 |
| Average rate <sup>1</sup> ..... | 0.9710 | 1.0110 | 1.0004 | 0.9710 | 0.9054 |

|                           | 2014      |         |          |          | 2015    |          |
|---------------------------|-----------|---------|----------|----------|---------|----------|
|                           | September | October | November | December | January | February |
| Low                       | 0.8922    | 0.8858  | 0.8751   | 0.8589   | 0.7863  | 0.7915   |
| High                      | 0.9206    | 0.8980  | 0.8900   | 0.8815   | 0.8527  | 0.8063   |
| Period-end                | 0.8922    | 0.8869  | 0.8751   | 0.8620   | 0.7863  | 0.7995   |
| Average rate <sup>1</sup> | 0.9081    | 0.8919  | 0.8829   | 0.8671   | 0.8254  | 0.8000   |

<sup>1</sup> The average rate is derived by taking the average of the noon rate for each business day during the relevant period.

## C. CAPITALIZATION AND INDEBTEDNESS

Information not required for an annual report.

## **D. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Information not required for an annual report.

## **E. RISK FACTORS**

We face risks and uncertainties which fall into the general business areas of markets, international commodity prices, currency exchange rates, environmental issues, fibre supply, government regulation and policy and, for Canadian companies, trade barriers and potential impacts of Aboriginal rights, including unresolved Aboriginal land claims in B.C.

Capitalized and other terms not defined in this section are defined in subsequent parts of this annual report.

### ***The recent acquisition of two US paper mills exposes the company to market, environmental, financial and human resource risks***

The completion of the acquisition of the Biron paper mill located in Wisconsin and the Rumford paper and pulp mill located in Maine, USA has significantly increased Catalyst Paper's operations, specialty paper market share, environmental footprint and supply requirements and significantly increases our operations in the United States. The acquisition exposes us to various risks, some of which are general in nature and some of which are unique to the operations of these mills, the regions they are located in, and the markets they sell their product to.

Key risks include but are not limited to:

- ongoing decline in coated paper markets due to general weakness in North American and international demand and due to market share lost to lower cost product alternatives,
- erosion of future profitability due to general inflation and regional price pressure on fibre and energy,
- the introduction of onerous environmental laws and regulations that may impose restrictions on our operations and processes,
- potential environmental and labour claims that may arise from circumstances not currently identified, including but not limited to instances of site contamination and labour grievances,
- unexpected delays in production and major maintenance events may negatively impact operations, customer service and costs,
- breakdowns, obsolescence and impairment of long-lived assets, parts and supplies may negatively impact operations, customer service and costs,
- potential labour unrest may negatively impact operations, customer service and costs,
- delays and unexpected costs associated with post-acquisition activities including transition, integration and system separation may negatively impact liquidity, free cash flow and future profitability,
- unexpected issues with the assignment of supply agreements or credit terms with vendors may negatively impact operations, customer service and costs,
- actual results falling short of earnings projections and synergies identified by management may negatively impact to liquidity, free cash flow and future profitability,
- management not having the capacity to complete an orderly transition and integration of the US mills while simultaneously operating the Canadian mills.

***Reliance by the Biron paper mill on the Wisconsin Rapids pulp and paper mill and the Lake States Wood Supply Group may result in supply interruption***

The newly acquired Biron paper mill is a semi-integrated mill that is connected by way of three subterranean tunnels to Verso Corporation's Wisconsin Rapids pulp and paper mill. Biron currently relies on the Wisconsin Rapids mill for the supply of softwood kraft pulp which is required to produce Biron's coated mechanical paper products. Biron also relies on the Wisconsin Rapids mill for waste transfer and treatment services, including the landfilling of fly ash generated by Biron's power boilers and the treatment of process water by the Water Quality Center which is owned and operated by the Wisconsin Rapids mill. Wood is currently being purchased for the Biron mill by the Lake States Wood Supply Group which buys wood for a number of other regional mills that are owned and operated by Verso Corporation. An extended interruption in the supply of softwood kraft pulp or waste treatment services by the Wisconsin Rapids mill, or an interruption in wood supply by the Lake States Wood Supply Group, could have adverse consequences to our operations, customer service and costs. We have however entered into agreements with Verso Corporation related to the supply of these goods and services that contain provisions and remedies that are intended to mitigate material losses due to extended supply interruptions.

***We may not be able to successfully integrate the recently acquired U.S. paper mills into our operations***

The success of our acquisitions will depend upon our ability to effectively manage the integration and operations of properties or assets we acquired and to realize other anticipated benefits. The process of managing acquired businesses may involve unforeseen difficulties and may require a disproportionate amount of management resources, which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. Any acquisitions would be accompanied by risks. For example, there may be significant change in commodity prices after we have committed to complete the transaction; we may have difficulty integrating and assimilating the operations and personnel of any acquired companies, realizing anticipated synergies and maximizing the final and strategic position of the combined enterprise, and maintaining uniform standards, policies and controls across the organization; and the acquired business or assets may have unknown liabilities which may be significant. There can be no assurance that we will be able to successfully manage the integration and operations of the businesses or assets we acquire or that the anticipated benefits of our acquisitions will be realized.

No assurance can be given that our systems, procedures and controls will be adequate to support the expansion of our operations resulting from the acquisition of the Biron paper mill located in Wisconsin and the Rumford paper and pulp mill located in Maine, USA. Our future operating results could be affected by the ability of our officers and key employees to manage the changing business conditions and to integrate the Biron paper mill and the Rumford paper and pulp mill operations into our own. No assurance can be given that the acquisition of the Biron paper mill and the Rumford paper and pulp mill will result in the anticipated benefits expected from the acquisition. In addition, there may be liabilities, such as environmental liabilities, that we have failed to discover or have underestimated in connection with the acquisition. There may also be capital expenditure requirements that we have failed to discover or underestimated in connection with the acquisition, which amounts may be material. Any such liabilities or capital expenditure requirements could have a material adverse effect on our business, financial condition or future prospects.

***We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful***

Our ability to service our debt obligations or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to fund our day-to-day operations or to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay capital expenditures or to sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We may not be able to affect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, such alternative actions may not allow us to meet our scheduled debt service obligations. The credit agreements that governs the ABL Facility and Term Loan and the indentures that govern our 2017 Notes (including the Offered Notes) restrict our ability to dispose of assets and use the proceeds from any such dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or obtain proceeds in an amount sufficient to meet any debt service obligations when due. Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on

commercially reasonable terms or at all, would materially and adversely affect our financial position and results of operations and our ability to satisfy our obligations under the 2017 Notes (including the Offered Notes), the Term Loan and the ABL Facility.

If we cannot service our debt obligations, we will be in default and as a result, holders of the 2017 Notes could declare all outstanding principal and interest to be due and payable, the lenders under the ABL Facility and Term Loan could terminate their commitments to loan money, our secured lenders could foreclose against the assets securing such borrowings and we could be forced into bankruptcy or liquidation.

***Our degree of leverage may limit our financial and operating activities***

Our historical capital requirements have been considerable and our future capital requirements could vary significantly and may be affected by general economic conditions, wood fibre supply, currency exchange rates, industry trends, performance, interest rates and many other factors that are not within our control. Subject to the limits contained in the credit agreements that governs the ABL Facility and Term Loan and the indentures that govern the 2017 Notes (including the Offered Notes), we may be able to incur additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could intensify. Our substantial level of indebtedness has had in the past, and could have in the future, important consequences, including the following:

- making it more difficult for us to satisfy our obligations with respect to our debt,
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, product developments, acquisitions or other general corporate requirements,
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures and other general corporate purposes,
- increasing our vulnerability to general adverse economic and industry conditions,
- exposing us to the risk of increased interest rates as certain of our borrowings including our borrowings under the ABL Facility are at variable rates of interest,
- limiting our flexibility in planning for and reacting to changes in our industry,
- placing us at a disadvantage compared to other, less leveraged competitors, and
- increasing our cost of borrowing.

***There is a limited trading market for the company's common shares***

Although our common shares are listed on the Toronto Stock Exchange ("TSX"), certain holders of common shares may also be creditors of the company and there is no certainty of a viable trading market for the common shares. The potential lack of liquidity for the common shares may make it more difficult for us to raise additional capital, if necessary, and it may affect the price volatility of the common shares. There can also be no assurance that a holder will be able to sell its common shares at a particular time or that the prices such holder receives when it sells will be favorable. Future trading prices of the common shares will depend on many factors, including our operating performance and financial condition.

Certain holders of common shares may also be creditors of the company and may seek to dispose of such securities to obtain liquidity. Such sales could cause the trading prices for these securities to be depressed. Further, the possibility that the holders of common shares may determine to sell all or a large portion of their shares in a short period of time may adversely affect the market price of the common shares.

***Our business is of a cyclical nature and demand for our products may fluctuate significantly***

The markets for pulp and paper products are highly cyclical and are characterized by periods of excess product supply due to many factors, including additions to industry capacity, increased industry production, structural changes in the industry, periods of weak demand due to weak general economic activity or other causes, and reduced inventory levels maintained by customers.

Demand for forest products generally correlates to global economic conditions. Demand for pulp and paper products in particular is driven primarily by levels of advertising. In periods of economic weakness, reduced spending by consumers and businesses results in decreased demand for forest products, causing lower product prices and possible manufacturing downtime. The North American newsprint and directory paper market is mature with demand for newsprint declining significantly in the last five years.

We believe these declines in newsprint and directory paper demand will continue long term, although we have the ability to partially mitigate the impact by switching production from newsprint and directory paper to other paper grades. Demand for our products is traditionally weaker in the first half of the year.

As at December 31, 2014, one of the paper machines at our Crofton mill continues to be indefinitely curtailed. On December 15, 2014, Paper Machine No. 9 at Powell River was indefinitely curtailed due to a lack of orders and a declining market for the paper manufactured on No. 9. Should demand for our products weaken, additional indefinite or periodic production curtailments may be required, which could have an adverse impact on our financial condition and ability to generate sufficient cash flows to satisfy our operational needs and debt service requirements.

***We operate in a commodity market where prices may fluctuate significantly***

The pulp and paper industry is a commodity market in which producers compete primarily on the basis of price. Prices for our products have fluctuated significantly in the past and may fluctuate significantly in the future, principally as a result of market conditions of supply and demand, as well as changes in exchange rates. Our earnings are sensitive to price changes for our principal products, with the effect of price changes on newsprint and mechanical specialty printing paper grades being the greatest. Market prices for our products typically are not directly affected by input costs or other costs of sales and, consequently, we have limited ability to pass through increases in operating costs to our customers without an increase in market prices. Even though our costs may increase, our customers may not accept price increases for our products or the prices for our products may decline. As our financial performance is principally dependent on the prices we receive for our products, prolonged periods of low prices, customer refusal to accept announced price increases, or significant cost increases that cannot be passed on in product prices may be materially adverse to us.

***Media trends may lead to continued declines in demand for our products***

Trends in advertising, internet use and electronic data transmission and storage have had and continue to have adverse effects on traditional print media. As our newsprint, telephone directory and retail customers increase their use of other forms of media and advertising, demand for our newsprint, uncoated mechanical and coated mechanical papers may continue to decline on a long-term basis.

***We are subject to exchange rate fluctuations***

Nearly all of our sales are based upon prices set in U.S. dollars, while a substantial portion of our costs and expenses are incurred in Canadian dollars and our results of operations and financial condition are reported in Canadian dollars. The acquisition on January 7, 2015 of the US paper mills will further increase the company's U.S. dollar exposure on sales and costs. Increases in the value of the Canadian dollar relative to the U.S. dollar reduce the amount of revenue in Canadian dollar terms from sales made in U.S. dollars, and would reduce cash flow available to fund operations and debt service obligations.

Since we have debt denominated in U.S. dollars including our 2017 Notes (including the Offered Notes), our reported earnings could fluctuate materially as a result of exchange rates given that changes in the value of the Canadian dollar against the U.S. dollar during a given financial reporting period result in a foreign currency gain or loss on the translation of U.S. dollar cash and debt into Canadian currency.

We manage a part of our currency exposure through the use of currency options and forward contracts to hedge anticipated future sales denominated in foreign currencies and U.S. dollar denominated debt. However, no

assurance can be made that we will engage in any hedging transactions or, if we decide to engage in any such transactions, that we will be successful in eliminating or mitigating currency exchange risks.

### ***We face significant global competition***

We compete with American, European and Asian producers in highly competitive global markets. Some of our competitors are larger and can accordingly achieve greater economies of scale, some have greater financial resources and some operate mills in locations that have lower energy, furnish or labour costs or have less stringent environmental and governmental regulations than the locations where we operate.

Our ability to compete is affected by a number of these factors as well as the quality of our products and customer service and our ability to maintain high plant efficiencies and operating rates and to control our manufacturing costs. If we were unable to compete effectively, there may be a materially adverse impact on our business.

### ***We face risks related to our international sales***

A significant portion of our sales are outside of Canada and the United States. For 2014, 100% of our pulp sales and 22% of our paper sales were international. These international sales result in additional risks including restrictive government actions (including trade quotas, tariffs and other trade barriers and currency restrictions), local labour laws and regulations affecting our ability to hire, retain or dismiss employees, the need to comply with multiple and potentially conflicting laws and regulations, unfavourable national or regional business conditions or political or economic instability in some of these jurisdictions, higher transportation costs and difficulty in obtaining distribution and sales support.

### ***We are exposed to fluctuations in the cost and supply of wood fibre***

We have no significant timber holdings and are dependent on third parties for the supply of wood fibre required for our paper manufacturing operations.

For our B.C. operations, approximately 70% of our fibre is provided by five suppliers. Our fibre supply could be reduced as a result of events beyond our control, including industrial disputes, natural disasters and material curtailments and shutdown of operations by suppliers for market or other reasons. Market-related curtailments or shutdowns can be influenced by both seasonal and cyclical factors, such as raw material availability, finished goods inventory levels, interest rates and demand for lumber. Weakness in the U.S. housing market could lead to production curtailment for B.C. lumber producers and result in a reduction in residual fibre supply available to us. We source a significant quantity of our fibre from the interior of B.C. The current mountain pine beetle infestation in the B.C. interior is expected to reduce the long-term fibre supply in the B.C. interior and could have a significant impact on the availability, quality and cost of fibre.

As it relates to the newly acquired US paper mills, fibre suppliers in the region are significantly less concentrated than our B.C. operations, with the top five suppliers for each respective mill providing 49% of fibre at the Rumford mill and 14% of fibre at the Biron mill. For the Biron mill, which currently relies on the Lake States Wood Supply Group for its wood supply, wood supply interruption is a potential risk in 2015 if the region experiences a challenging late winter or longer winter break-up period given the very low inventories at the Biron mill and the other regional mills owned by Verso Corporation currently being supplied by the Lake States Wood Supply Group.

For our B.C. operations, approximately 70% of our fibre is sourced under long-term fibre agreements with third parties with pricing based on market prices or on prices determined under market-based formulas. For our newly acquired U.S. operations, approximately 79% is sourced directly from third parties with the remaining 21% sourced from short term stumpage purchases.

Given that the market price for fibre varies due to external factors, there is a risk that we will not continue to have access to wood fibre at previous levels or pricing.

Aboriginal groups have claimed aboriginal title over substantial portions of B.C.'s timberlands, including areas where the forest tenures held by our suppliers are located. Although the renewal of forest tenures held by our suppliers may be adversely affected by claims of aboriginal title, the specific impact cannot be estimated at this time.

### ***We are dependent on the supply of certain raw materials***

In addition to wood fibre, we are dependent on the supply of certain chemicals and raw materials used in our manufacturing processes. Any material disruption in the supply of these chemicals or raw materials could affect our ability to meet customer demand in a timely manner and harm our reputation, and any material increase in the cost of these chemicals or other raw materials could negatively affect our business and the results of our operations.

### ***We have incurred losses in recent periods and may incur losses in the future that may affect liquidity and ongoing operations***

As of December 31, 2014 we had recorded net losses in 10 of the last 12 quarters. These losses were driven by reduced prices, weak market demand, production curtailments, general inflationary pressure and increased input costs and, until recently, a strong Canadian dollar. Should we be unable to return to sustained profitability, cash generated through operations may be insufficient to meet operating cash requirements, requiring increased reliance on the ABL Facility to fund operating costs. If sufficient funding is not available under the ABL Facility, then additional funding sources may be required and there is no assurance that we will be able to access additional funding sources on favourable terms or at all to meet our cash requirements. The failure to obtain such funding could adversely affect our operations and our ability to maintain compliance with covenants under the ABL Facility, the 2017 Notes (including the Offered Notes), and the Term Loan. While the acquisition on January 7, 2015 of the US paper mills will provide additional sources of income, the operation of these newly acquired mills and the related transition and integration activities may place additional pressure on future liquidity.

### ***Labour disruptions could have a negative impact on our business***

Labour disruptions could occur and have a negative impact on our business. In Canada, our labour agreements with Unifor and PPWC for our manufacturing facilities expire on April 30, 2017 and the labour agreement with Unifor for our distribution facility expires on March 31, 2015. In the United States, our labour agreements with the unions located in our Biron, Wisconsin manufacturing facilities expire on March 31, 2018 while the agreements with the unions in our Rumford, Maine facility expire on June 30, 2018. The Unifor local representing employees in our distribution facility issued notice to bargain a renewal collective agreement in January 2015 but we do not expect any labour disruption arising out of collective bargaining.

### ***We are dependent on third party transportation providers***

We are dependent on third party service providers for the transportation of our raw materials and products by rail, truck, barge or ship. Material disruptions in the operations of our transportation service providers due to weather, seasonal impacts, labour disruptions or other factors could negatively affect our ability to meet customer demand in a timely manner and result in increased costs and a material adverse impact on our business, the results of our operations and reputation.

### ***Claims of aboriginal title and rights in Canada may affect our operations***

The ability to operate our mills in Canada may be affected by claims of aboriginal rights and title by aboriginal groups. The governments of Canada and B.C. have established a formal process to negotiate settlements with aboriginal groups throughout B.C. in order to resolve these land claims. It is the policy of the governments that ownership of lands held in fee simple by third parties (such as us) will not be affected by treaty negotiations. The Powell River mill site has been included in areas to which an aboriginal group has asserted aboriginal title both through treaty negotiations with government and by commencing an action in 2005 in the Supreme Court of B.C. While we and other industrial companies have been named as parties in the court proceeding along with the governments of Canada and B.C., counsel for the aboriginal group has advised us that the plaintiffs are currently negotiating with these two governments and have no intention of proceeding with the action at this time. Based on the history of similar proceedings, we expect that it would be many years before a final court decision could be rendered if the proceeding were pursued.

Recent Supreme Court of Canada decisions have confirmed that the governments of Canada and B.C. are obligated to consult with and, in certain circumstances, accommodate aboriginal groups whenever there is a reasonable prospect decision, such as a decision to issue or amend a regulatory permit, which may affect aboriginal groups' rights or title. This duty of consultation and accommodation may affect our ability to obtain or amend necessary regulatory permits on a timely basis and may influence the conditions set out in such permits.

### ***Increases in energy costs could have a negative impact on our business***

Our operations consume a significant amount of electricity, natural gas and fuel oil. Increases in prices for these commodities can increase manufacturing costs and have an adverse impact on our business and results of our operations.

In British Columbia, although our electricity supply agreements are provincially regulated and pricing has historically been stable, B.C. Hydro and Power Authority ("B.C. Hydro") in recent years has sought, and to some extent achieved, rate increases above historical levels. In the past three years, rate increases totaled 27% which added \$30 million to our costs annually. In November, 2013 the British Columbia government announced a proposed 10 year electricity plan commencing in April, 2014. Based on our 2013 electricity consumption levels, this plan could result in an increase from 2013 levels in our electricity costs from 2013 levels totaling 27% over the first four years of the plan which results in increases in electricity costs of approximately \$13 million in the first year of the plan, approximately \$24 million in the second year of the plan and approximately \$33 million per year in each of the next two years of the plan. If the plan is implemented in its present form, rate increases at these levels will have an impact on our earnings. We have mitigated some of the impact of rate increases in the past through reductions in usage at the highest incremental power rate and intend to further mitigate rate increases by implementing energy conservation projects and increasing our capacity to self-generate electricity. Although we are working with government and BC Hydro to identify and explore options and solutions to mitigate the effect of these increases, there can be no assurance that we will be able to eliminate or mitigate our exposure to the effect of all the rate increases.

Electricity costs in our US operations are mitigated by the larger proportion of self-generation capacity. The Biron, Wisconsin mill is supplied by a regulated utility and the rates are projected to be relatively stable for this year. The mill in Rumford, Maine operates in a deregulated jurisdiction and has the capacity to generate all of its electrical needs with self-generation and effectively hedges power costs with the fuel costs for self-generation.

The US divisions both consume significant volumes of coal; this pricing is set in annual contracts.

Canadian and American mills consume oil and natural gas which are purchased on spot markets and for which pricing fluctuates significantly due to various external factors. We manage our exposure to the price volatility for these fuels by using lower priced alternatives where feasible and in some circumstances through the use of financial instruments and physical supply agreements under a hedging program. There is, however, no assurance that we will be successful in eliminating or mitigating exposure to price volatility for these fuels.

### ***We are subject to significant environmental regulation***

We are subject to extensive environmental laws and regulations that impose stringent requirements on our operations, including, among other things, air emissions, liquid effluent discharges, water regulation, the storage, handling and disposal of hazardous materials and wastes, remediation of contaminated sites and landfill operation and closure obligations. It may be necessary for us to incur substantial costs to comply with such environmental laws and regulations.

Some of our operations are subject to stringent permitting requirements and from time to time we face opposition to construction or expansion of proposed facilities. We may discover currently unknown environmental liabilities in relation to our past or present operations or at our current or former facilities, or we may be faced with difficulty in obtaining project approvals in the future. These occurrences may (i) require site or other remediation costs to maintain compliance or correct violations of environmental laws and regulations, (ii) result in denial of required permits, (iii) result in government or private claims for damage to person, property or the environment, or (iv) result in civil or criminal fines and penalties or other sanctions.

Our Canadian operations may be affected by the regulation of greenhouse gases: The Federal government has proposed combustion appliance based standards which could come into effect in 2020 and all Canadian mills currently meet those standards with ease. British Columbia announced its goal of reducing the provincial release of GHGs by 33% by 2020, based on 2007 levels, with interim reduction targets of 6% by 2012 and 18% by 2016. B.C. has not issued regulations for this GHG reduction program at this time. It is too early to determine the impact on the company under such a program.

Our US operations are subject to various stringent air regulations including the USEPA's Maximum Achievable Control Technology (MACT) standards. One boiler at Biron and two at Rumford are impacted by the standard and may require capital infusion of approximately \$6 million in total by end of 2016 to meet their respective deadlines of January 31, 2017. Federal authorities could revise the standard before it comes into force and the company

continues to consider all approaches to reaching compliance including fuel switching, emissions controls, and energy reduction initiatives.

***Equipment failures and the need to increase capital and maintenance expenditures could have a negative impact on our business***

Our business is capital intensive. Our annual capital expenditure requirements vary due to differing requirements for current maintenance, expansion, business capital and environmental compliance and future projects. We regularly carry out maintenance on our manufacturing equipment but key components may still require repair or replacement. The costs associated with such maintenance and capital expenditures or our inability to source the necessary funds to enable us to maintain or upgrade our facilities as required could have an adverse effect on our business and operations.

In addition, we may from time to time temporarily suspend operations at one or more facilities to perform necessary maintenance or carry out capital projects. These temporary suspensions could affect the ability to meet customer demand in a timely manner and adversely affect our business.

***We may be subject to litigation which could result in unexpected costs and expenditure of time and resources***

We may from time to time be subject to claims and litigation proceedings generally associated with commercial and employment law issues. Given that these claims are subject to many uncertainties and the inability to predict with any certainty their outcomes and financial impacts, there is no guarantee that actions that may be brought against us in the future will be resolved in our favour or covered by our insurance. Any losses from settlements or adverse judgments arising out of these claims could be materially adverse to our operations and business.

The Snowflake mill sources water from groundwater wells in the vicinity of the Little Colorado River for its process requirements. The Little Colorado River Adjudication, filed in 1978, is pending in the Superior Court of Arizona, Apache County. The purpose of this adjudication is to determine the nature, extent and relative priority, if applicable, of the water rights of all claimants to the Little Colorado River system and sources. There are more than 3,500 participants. Catalyst sold its interest in the Snowflake mill in January, 2013, and therefore, the new owner will become a party to the adjudication as a result of its acquisition of the mill. Native American tribes and the United States government contend that the Snowflake mill's withdrawal and use of groundwater impermissibly interferes with water rights to the Little Colorado River. We dispute this contention. However, an adverse determination could result in claims for damages that may be materially adverse to us.

In addition, securities class-action litigation often has been brought against public companies following periods of volatility in the market price of their securities. It is possible that we could be the target of similar litigation in future. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

***We extend trade credit to our customers and they may not pay us promptly or in full***

We extend trade credit to many purchasers of our products and rely on their creditworthiness. Some of these customers operate in highly competitive, mature, cyclical or low-margin businesses and some are highly leveraged financially or are experiencing negative cash flows which may result in them needing to refinance, restructure or file for bankruptcy protection or bankruptcy. We will typically have a greater number of such customers during economic downturns. The failure of such customers to pay us promptly and in full under the credit terms we extend to them could have a material adverse impact on our operating cash flows.

***We are dependent upon certain of our management personnel***

The success of our operations is influenced to a significant degree by our ability to attract and retain senior management with relevant industry experience. Successful implementation of our business strategy is dependent on our ability to attract and retain our executive officers and management team. The unexpected loss of services of any key management personnel or the inability to recruit and retain qualified personnel in the future could have an adverse effect on our business and financial results.

***Consumer boycotts or increases in costs due to chain-of-custody programs may adversely affect demand for our products***

Some of our customers are sensitive to issues associated with harvesting of old growth forests and require us to supply products that are not produced from these forests. A growing number of customers want to purchase products that originate from sustainable managed forests as validated by certification programs. We have implemented our chain-of-custody systems to verify that selected paper products contain 100% certified wood fibre, but we may be required to implement additional or more stringent chain-of-custody certification programs with increased costs to meet our customers' demands. Demand for our products may be adversely affected if we do not implement such programs or if we become subject to organized boycotts or similar actions by environmental or other groups.

***Our insurance has limitations and exclusions***

We maintain insurance coverage that we believe would ordinarily be maintained by an operator of facilities similar to our own. The insurance policies are subject to limits and exclusions. Damage to or destruction of our facilities could accordingly exceed the limits of our policies or be subject to policy exclusions.

***Our Canadian mills are located in seismically active areas***

Our three operating mills in Canada are situated adjacent to the ocean on the south coast of B.C. This is a seismically active area and these mills and the surrounding transportation infrastructure are accordingly susceptible to risk of damage or destruction caused by earthquakes and tsunamis. Our insurance may not cover the total losses associated with damage or destruction caused by an earthquake or tsunami, and this insurance is subject to limits and deductibles in respect of such damage that may limit the amount recoverable.

***Our mills in the United States are partially located on flood plains***

Our two USA based mills are situated adjacent to rivers. These rivers occasionally experience rising water levels and as such are susceptible to risk of damage or destruction caused by floods. Our insurance may not cover the total losses associated with damage or destruction caused by floods and this insurance is subject to limits and deductibles in respect of such damage that may limit the amount recoverable. Both mills have comprehensive flood response plans that are tested annually and early warning systems that alert the mills to rising water levels.

***Post-retirement plan obligations may affect our financial condition***

We maintain defined benefit pension plans and other post-retirement benefit plans for certain retired employees. As at December 31, 2014 the underfunded liability associated with the defined benefit pension plans was \$120.8 million and the underfunded liability associated with the other post-retirement benefit plans was \$176.0 million. Funding requirements for these plans are dependent on various factors, including interest rates, asset returns, regulatory requirements for funding purposes, and changes to plan benefits. In 2015, we are required to contribute \$4.1 million towards the underfunded liability of the defined benefit pension plans. Although we expect to continue to make contributions to fund post-retirement plan obligations and to meet legal funding obligations for the defined benefit pension plan, no assurance can be made that the underfunded liability under these plans will not be materially adverse to us in the future.

***A change in our legal control could be materially adverse***

As at March 3, 2015, we have outstanding US\$260.5 million of 2017 Notes (including the Offered Notes) and \$18.5 million of Term Loans. If a Change of Control (as such term is defined in the indentures governing these notes) occurs, we are required to make an offer to purchase all outstanding 2017 Notes (including the Offered Notes) at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of payment, in accordance with the procedures set out in the indentures. The credit agreement for the Term Loan entered into on March 20, 2014 contains a provision whereby the loan will be deemed to be in default in the case of a change in legal control. On the occurrence of an event of default the Term Loan becomes due and payable in whole together with any accrued interest. We may not have sufficient financial resources to fund any such repurchase.

## ITEM 4 INFORMATION ON THE CORPORATION

### A. HISTORY AND DEVELOPMENT OF THE CORPORATION

#### *Incorporation*

We were formed on September 1, 2001 by the amalgamation under the *Canada Business Corporations Act* of Norske Skog Canada Limited and Pacifica Papers Inc. On October 3, 2005 we changed our name to Catalyst Paper Corporation.

Catalyst's principal predecessor was British Columbia Forest Products Limited, which was a company formed by the amalgamation under the laws of the Province of British Columbia on December 30, 1971 of its predecessor company, incorporated by certificate of incorporation, with memorandum and articles, under the laws of the Province of British Columbia on January 31, 1946, and 24 of its wholly owned subsidiaries. On September 2, 1988, British Columbia Forest Products Limited changed its name to Fletcher Challenge Canada Limited. Prior to July 2000, 50.76% of Fletcher Challenge Canada Limited was owned by Fletcher Challenge Limited of New Zealand ("Fletcher Challenge New Zealand"). In July 2000, Norske Skogindustrier ASA completed a transaction with Fletcher Challenge New Zealand whereby all of the business and assets of Fletcher Challenge New Zealand's paper division worldwide were acquired by Norske Skogindustrier ASA. As part of this transaction, Norske Skogindustrier ASA acquired Fletcher Challenge New Zealand's 50.76% interest in Fletcher Challenge Canada Limited. On December 15, 2000, Fletcher Challenge Canada Limited changed its name to Norske Skog Canada Limited.

As a result of the amalgamation with Pacifica Papers Inc. and subsequent equity issues, Norske Skogindustrier ASA's interest in Catalyst decreased to 29.4%. On February 16, 2006, Norske Skogindustrier ASA sold its remaining 29.4% interest in Catalyst by way of a secondary offering.

Pacifica Papers Inc.'s predecessor was Pacifica Papers Limited Partnership. On June 8, 1998, Pacifica Papers Limited Partnership, through its indirect wholly owned subsidiary, Pacifica Papers Acquisition Company Ltd., acquired all the shares of MB Paper Limited from MacMillan Bloedel Limited. On March 12, 1999, the unitholders of Pacifica Papers Limited Partnership approved a reorganization pursuant to which Pacifica Papers Limited Partnership changed its corporate form from a partnership to a corporation. As part of this reorganization, 28,750,000 common shares of Pacifica Papers Inc. were distributed to all the unitholders of Pacifica Paper Limited Partnership in exchange for their partnership units on a one for one basis.

The Corporation and certain of its subsidiaries filed for protection under the CCAA on January 31, 2012. As a result of that filing, the TSX suspended the trading of the Corporation's common shares on the TSX on February 1, 2012 and delisted the Corporation's common shares effective as of the close of markets on March 8, 2012. The Corporation's stock option and restricted share unit plans in effect at that time ceased to be in effect upon the delisting.

The Corporation implemented a plan of arrangement ("Plan") under the CCAA that was completed on September 13, 2012. 14,400,000 new common shares were issued from the treasury of the company to the holders of the 2016 Notes (as hereinafter defined) on September 13, 2012, in accordance with the company's plan of arrangement ("Plan") under the *Companies' Creditors Arrangement Act* (CCAA) and a further 127,571 new common shares were issued from treasury on December 19, 2012 to certain unsecured creditors of the company who elected to receive their pro rata share of up to 600,000 common shares pursuant to the terms of the Plan. Under the terms of the Plan all former shares and other securities of the company issued and outstanding on September 13, 2012 were deemed automatically cancelled. See "*Restructuring and Implementation of Plan*".

Our head and registered office is located at 2nd Floor, 3600 Lysander Lane, Richmond, British Columbia, V7B 1C3 and our telephone number is 604-247-4400.

#### *Purchase of Mills in Maine and Wisconsin*

On January 7, 2015, we completed the acquisition of the Biron paper mill located in Wisconsin and the Rumford paper and pulp mill located in Maine, USA from NewPage Corporation, NewPage Wisconsin System Inc., and Rumford Paper Company. The cash payment made on closing was US\$62.4 million, after giving effect to an adjustment under the purchase agreement based on estimated working capital at closing, and the final purchase price is subject to certain additional post-closing adjustments.

The acquisition was financed through advances under our ABL Credit Facility. The company entered into an amendment to its ABL Credit Facility to increase the maximum amount of credit available thereunder from \$175.0 million to \$225.0 million. The company also issued PIK Toggle Senior Secured Notes due 2017 (Offered Notes) with a principal amount of US\$25.0 million. The Offered Notes are on substantially the same terms and form part of the same series as Catalyst's existing PIK Toggle Senior Secured Notes due 2017 (2017 Notes). The Offered Notes were issued at a 20% discount to face value with Catalyst receiving gross proceeds under the Offering of US\$20.0 million.

The Biron paper mill produces lightweight coated and ultra-lightweight coated paper. The Rumford paper and pulp mill produces coated specialty, coated freesheet and coated mechanical paper, as well as Kraft market pulp.

As the acquisition of the Rumford and Biron mills occurred after our year end on December 31, 2014, except where specified otherwise, the financial results described in this Annual Report do not incorporate or account for the acquisition or integration of these mills into our operations.

#### ***Indefinite Curtailment of Powell River No. 9 Paper Machine***

On December 15, 2014, we indefinitely curtailed Paper Machine No. 9 at Powell River after temporarily curtailing the machine on October 27, 2014 due to a lack of orders and a declining market for the paper manufactured on No. 9. We expect that this curtailment will result in the elimination of approximately 50 positions at the Powell River operations (43 employees) and the Surrey Distribution Centre (seven employees) from where product manufactured on No. 9 were stored and shipped. While we do not anticipate that the outlook for product manufactured on No. 9 will change in the foreseeable future, No. 9 will continue to be maintained for the time being. The indefinite curtailment resulted in reduced production of approximately 19,200 tonnes of uncoated mechanical paper.

We recognized a non-cash impairment charge of \$16.5 million on long lived assets that comprised Paper Machine No. 9 and on parts and supplies related to No. 9.

#### ***Fatality at Crofton Mill***

On December 9, 2014, a contract truck driver was fatally injured while working at the Crofton mill. The contract truck driver was delivering wood chips to the mill on the evening of December 9 when he was discovered missing by mill personnel. The mill activated its Emergency Response Plan, and the RCMP and WorkSafe BC were promptly contacted to launch an investigation at the site. WorkSafe BC is leading the investigation into the circumstances surrounding the accident to determine cause. The RCMP and the Coroner's Office are also investigating and the company is fully supporting the investigations. The fatality recovery operation resulted in lost paper production of approximately 1,400 tonnes and lost pulp production of approximately 2,400 tonnes which impacted Crofton's cost by \$1.1 million.

#### ***Sale of Interest in PRSC Limited Partnership and PRSC Land Development Ltd.***

On August 29, 2014, we completed the sale of our interest in PRSC Limited Partnership and PRSC Land Development Ltd., including the repayment of the mortgage receivable, to the Tla'amin First Nation and City of Powell River for proceeds of \$3.0 million. The PRSC Limited Partnership was a unique joint venture that was established by the three parties in 2006 to sell and redevelop lands that were surplus to Catalyst's operations in the community. The sale transaction was approved by the courts in 2012 when Catalyst was undergoing financial restructuring while under creditor protection.

#### ***Introduction of BC Hydro Power Smart Program***

On July 24, 2014, the Ministry of Energy and Mines and BC Hydro introduced a new energy efficiency program aimed at reducing the power costs of mechanical pulp producers. The Power Smart program provides a funding injection of \$100 million over three years with \$45 million allocated to Catalyst Paper. The program is aimed at reducing the energy intensity and improving the energy efficiency of the thermal-mechanical pulping process at seven pulp facilities in British Columbia.

The Power Smart Program will benefit our three mills located in Crofton, Port Alberni and Powell River by providing funding for 75% of the capital investment required for equipment upgrades to more efficiently harness energy and reduce energy waste. The first project at our Powell River mill, approved by BC Hydro on December 22, 2014, will utilize waste steam to reduce our electrical load on the BC Hydro system. The project has an expected capital cost in

excess of \$25 million of which Power Smart funding covers 75% and will reduce annual energy cost by an estimated \$5 million. As of December 31, 2014, we spent \$6.1 million on this project and received reimbursement from BC Hydro of \$4.5 million.

#### ***Settlement Agreement entered into with PACE Industry Union-Management Pension Fund***

The company entered into a settlement agreement dated July 18, 2014, with the PACE Industry Union-Management Pension Fund (PIUMPF), a multi-employer pension plan which we contributed to on behalf of hourly employees at the Snowflake mill. Catalyst will, in accordance with the settlement agreement, remit three lump sum payments of US\$1.0 million each, with the first payment made on July 28, 2014 and the two subsequent payments to be made on or before May 1, 2015 and May 1, 2016, respectively. In addition, we will continue to remit monthly installments of US\$0.1 million in accordance with a confirmed payment schedule. In 2012, a withdrawal liability of US\$11.7 million was recognized as a result of the closure of the Snowflake mill.

#### ***Changes to Board of Directors***

On July 8, 2014, Pierre A. Raymond was appointed to the Board of Directors.

#### ***Completion of Term Loan and Redemption of Floating Rate Senior Secured Notes***

On March 20, 2014, the company entered into a \$20.0 million term loan (Term Loan) that matures on July 31, 2017 and bears interest, payable monthly, at the Canadian Prime Rate plus 3% per year. The Term Loan provides for quarterly principal repayments of \$0.5 million and can be prepaid in whole or in part at any time without premium. The Term Loan was provided by the same lenders who participate in our asset based loan facility (ABL Facility) and is secured by a senior charge on the assets of the company and its subsidiaries that secures the 2017 Notes.

The proceeds of the Term Loan were used to redeem the US\$19.4 million outstanding balance on the Floating Rate Senior Secured Notes due 2016 (Floating Rate Notes). The effective settlement date of the redemption of the Floating Rate Notes was April 19, 2014. The replacement of the Floating Rate Notes with the Term Loan resulted in a net reduction to our outstanding secured debt of approximately US\$1.4 million and a reduction in annual interest cost of approximately US\$1.4 million.

#### ***Reduction of Secured Debt***

We repurchased for cancellation an aggregate principal amount of US\$14.5 million of our outstanding 2017 Notes on the open market, thereby reducing our annual interest costs by approximately US\$1.6 million. The debt was repurchased in two tranches, US\$9.5 million with an effective settlement date of March 27, 2014, and US\$5.0 million with an effective settlement date of April 1, 2014.

#### ***Unsuccessful Appeal of Sales Tax Ruling***

On February 4, 2015, the BC Court of Appeal overturned the January 28, 2014 Supreme Court of British Columbia ruling in favour of Catalyst Paper in our action against the Province of British Columbia involving a reassessment of the amount of sales tax payable under the Social Services Tax Act on electricity purchased from Powell River Energy Inc. in 2001 through 2010.

### ***Production Curtailment***

The following table summarizes pulp and paper production curtailment in 2014:

| <b>2014 Production Curtailment<br/>(tonnes)</b> | <b>Specialty Printing<br/>Papers<sup>(1)</sup></b> | <b>Newsprint<sup>(2)</sup></b> | <b>Pulp</b> | <b>Total</b> |
|-------------------------------------------------|----------------------------------------------------|--------------------------------|-------------|--------------|
| Q1                                              | 0                                                  | 35,000                         | 0           | 35,000       |
| Q2                                              | 0                                                  | 35,000                         | 0           | 35,000       |
| Q3                                              | 0                                                  | 35,000                         | 0           | 35,000       |
| Q4                                              | 19,200                                             | 35,000                         | 0           | 54,200       |
| Total                                           | 19,200                                             | 140,000                        | 0           | 159,200      |

1. The specialty printing papers curtailments relates to the Powell River P9 paper machine which was indefinitely curtailed on December 15, 2014. This machine was curtailed due to lack of orders and a declining market for the paper manufactured on it.
2. The newsprint production curtailment relates to the Crofton C1 paper machine which was curtailed throughout 2014. This machine has been indefinitely curtailed since January 21, 2010 as a result of reduced customer demand and high operating costs.

### ***Adjustment to Carrying Value of Long-Lived Assets***

On December 31, 2013, we wrote down the full carrying value of our goodwill by \$56.7 million and the carrying value of our buildings, plant and equipment by \$30.2 million due to the need to record an asset impairment charge required by accounting rules under U.S. GAAP. Potential impairment indicators that led to this adjustment included declines in current and forecasted paper prices and announced rate increases in future electric power purchases that may negatively impact future operating costs and profitability.

The total earnings projections of our mills as at December 31, 2013 used in the impairment calculation were higher than the earnings projections as at September 30, 2012 used for fresh start accounting; however, accounting rules under U.S. GAAP require downward adjustments, but do not allow upward adjustments, on fixed asset values. The reduction in carrying values were to the fixed assets of our Powell River and Port Alberni mills due in part to reduced pricing forecast for specialty paper as compared to pricing forecasts in 2012 that were utilized when we assigned fair values to our assets under fresh start accounting. Conversely, the impact of stronger current and forecasted pricing for newsprint and pulp and forecasted currency weakness supported a higher fair value for the Crofton pulp and paper mills than the fair value established under fresh start accounting in 2012.

### ***Executive Changes***

Effective April 1, 2014, Jim Bayles was appointed Senior Vice President, Sales & Marketing and effective August 11, 2014, Len Posyniak was appointed Senior Vice President, Human Resources & Corporate Services.

As part of its plan to improve cost competitiveness and increase operational focus, the company reduced the size of its executive team by three positions during 2013.

### ***Sale of Port Alberni Wastewater Treatment Facility***

On September 30, 2013, we completed the sale of a wastewater treatment facility and related infrastructure to the City of Port Alberni for proceeds of \$5.8 million. The sale included the 13.4 hectare wastewater treatment facility and 3.9 hectare parcel of lands combined with a road dedication to facilitate development of an industrial truck route along the waterfront. We received \$5.0 million of the proceeds on September 30, 2013 and received the remaining \$0.8 million in September 2014.

### ***Sale of Elk Falls Site***

On May 24, 2013, we completed the sale of our Elk Falls industrial site and related assets for proceeds of \$8.6 million to Quicksilver Resources Canada Inc. The pulp and paper mill which formerly operated at the Elk Falls site was indefinitely curtailed in 2009 and permanently closed in 2010.

### ***Purchase of Floating Rate Notes***

On April 24, 2013, the company completed the purchase of US\$15.6 million of Floating Rate Notes at par plus accrued and unpaid interest. Holders of US\$15.6 million of Floating Rate Notes accepted the offer made on March 26, 2013 to purchase up to US\$20.0 million of the Floating Rate Notes with the balance of net proceeds from the sale of our interest in PREI. The balance of Floating Rate Notes were redeemed on April 19, 2014; see “Recent Developments – Completion of Term Loan and Redemption of Floating Rate Senior Secured Notes”.

### ***Return to Provincial Sales Tax***

On April 1, 2013, the Province of British Columbia reverted back to a provincial sales tax (PST) regime. The additional direct annualized cost to our business is estimated to be approximately \$13 million, based on actual 2014 expenditures. Approximately \$8 million of this increase relates to purchased electric power.

### ***Sale of Interest in Powell River Energy***

On March 20, 2013, we completed the sale of our 50% interest in Powell River Energy Inc. (“PREI”) and Powell River Energy Limited Partnership (collectively “Powell River Energy”) for \$33 million. Electricity generated by PREI will continue to be sold to the Corporation under the existing power purchase agreement which expires in 2016 with extension to 2021 in one-year renewal term increments at the option of the Corporation.

Under the Corporation's plan of arrangement (Plan) under the *Companies' Creditors Arrangement Act* (CCAA), approximately \$12.7 million of the net proceeds of the sale were distributed to unsecured creditors who, pursuant to our restructuring under the CCAA, did not elect to receive shares in settlement of their claims. The company made an offer on March 26, 2013 to purchase US \$20 million of its Floating Rate Notes with the balance of the net proceeds. See “Purchase of Floating Rate Notes” above.

### ***Closure and Sale of Snowflake Mill***

On January 30, 2013 we completed the U.S. Court approved sale of the assets of the closed Snowflake facility and the shares of The Apache Railway Company to a third party for US\$13.5 million and other non-monetary consideration. The Corporation permanently closed the Snowflake mill on September 30, 2012. The decision to close the Snowflake mill was driven by continued financial losses resulting from intense supply input and market pressures. Snowflake had generated negative EBITDA since 2009. In August 2012, the Corporation obtained both Canadian and U.S. Court approval of a sale process for the Snowflake mill and associated assets. The Snowflake mill and associated assets, including the Corporation's shares in The Apache Railway Company, were sold to a third party for US \$13,460,000 in a sale that completed on January 30, 2013.

The Snowflake mill closure resulted in closure costs of approximately US\$19.9 million, including a withdrawal liability of approximately US\$11.7 million in connection with the PACE Industry Union-Management Pension Fund, a multi-employer pension plan which we contributed to for hourly employees at the Snowflake mill. The sale resulted in the elimination of future operating losses associated with the Snowflake mill and savings of annualized selling, general and administrative expenses.

### ***Listing of Common Shares***

On January 7, 2013, our new common shares were listed and began trading on the Toronto Stock Exchange (TSX) under the symbol “CYT”.

### ***Post Restructuring Financing Arrangements***

On September 13, 2012, we entered into a new \$175.0 million ABL Facility, which was a pre-condition for the Corporation to implement the Plan and exit from protection under the CCAA. The ABL Facility provided financing for general corporate purposes, and for the repayment on exit of the debtor-possession asset based lending facility that was in place throughout the CCAA proceedings.

The Corporation also completed a US\$35 million secured exit financing facility (“Exit Facility”) on September 13, 2012 and issued US\$35 million of Floating Rate Notes under that facility on its exit from protection under the CCAA. The Exit Facility provided the Corporation with backstop financing to pay costs and expenses and manage other contingencies on exit from protection under CCAA.

## ***Collective Agreements***

Effective May 1, 2012, we entered into new collective agreements with the Communications, Energy and Paperworkers Union (CEP) locals at our Crofton, Port Alberni and Powell River mills and the Pulp, Paper and Woodworkers Union of Canada (PPWC) local at our Crofton mill. These agreements were negotiated during our restructuring under the CCAA and expire on April 30, 2017. The new labour agreements include a 10% reduction in hourly rates along with various adjustments to vacation, health benefits and work rules necessary to provide Catalyst with a more competitive labour cost structure. The CEP amalgamated with the Canadian Autoworkers Union in 2013 under the name Unifor. We also completed a new collective agreement at our Surrey Distribution Centre with the Christian Labour Association of Canada ("CLAC") in early March 2012 which expires in 2015 and maintains existing rates and benefits. Unifor became the bargaining agent for the hourly employees at the Surrey Distribution Centre during 2013.

## ***Restructuring***

On January 31, 2012, Catalyst and certain of its subsidiaries obtained an order from the Supreme Court of British Columbia under the CCAA and subsequently received a recognition order from the United States court under Chapter 15 of the US Bankruptcy Code.

The Corporation's secured and unsecured creditors approved the Corporation's plan of arrangement under the CCAA ("Plan") at meetings held on June 25, 2012. The Plan was approved by the Canadian Court on June 28, 2012 under the CCAA process and by the United States Court on July 27, 2012 under the Chapter 15 process. The Plan became effective on September 12, 2012 and the restructuring under the Plan completed on September 13, 2012.

As a result of the restructuring Catalyst reduced its debt by \$390 million, eliminated \$80 million of accrued interest and reduced annual interest expense and other cash costs by approximately \$70 million per year.

## ***Defined Benefit Pension Plans: funding extensions and special portability election***

Under a special portability election option, we offered members of our defined benefit pension plan for salaried employees a one-time reduced lump-sum payment option as full settlement of their entitlements under the plan. Members had to make their elections by no later than December 15, 2012 and had until June 30, 2013 to revoke such elections in favour of continuing to receive monthly pension payments. 285 plan members representing \$38.3 million of reduced lump-sum value maintained their elections. Members who exercised the election received reduced lump-sum payments calculated as the commuted value of future pension payments multiplied by the solvency ratio of the plan on December 31, 2012 plus quarterly top-up payments over the next four years totaling 8% of their commuted value. Lump-sum payments were made in July 2013 from plan assets. Implementation of the special portability option resulted in a reduction of approximately \$21 million in the plan's solvency deficit.

During our CCAA proceedings, we obtained government approval (i) to offer a special portability election option in respect of our defined benefit pension plan for salaried employees, and (ii) for further funding relief in respect of our obligation to make payment to the solvency deficit for that pension plan. The funding relief provides for fixed annual contributions to the solvency deficit over a 15-year period ending in 2027 and a final payment of the remaining deficit in 2028. This change results in estimated annual cash savings of approximately \$7 million per year commencing in 2013.

In December, 2011, the B.C. Superintendent of Pensions granted us an extension of time for payment of the solvency deficits under certain of our defined benefit pension plans. This extension provided for payments necessary to amortize the solvency deficits over the seven year period ending December 2017, including annual payments of \$10.6 million for 2011, 2012 and 2013.

## ***British Columbia Carbon Tax***

Our operations in British Columbia are subject to a broad-based carbon tax on fossil fuels which was introduced in 2008 and reached its maximum of \$30 per tonne of carbon dioxide equivalent emissions in 2012. The tax applies to gasoline, diesel fuel, natural gas and other fossil fuels. We are a significant consumer of fossil fuels, both directly in our operations and through our reliance on fossil fuel powered transportation for the delivery of products and supplies. Although the intention is that the carbon tax will be, in the aggregate, revenue neutral, we are unable, in the short term, to take advantage in a material way of other tax initiatives designed to offset the carbon tax. The tax increased our operating costs by \$6.5 million in 2012, \$5.9 million in 2013 and \$4.8 million in 2014.

## B. BUSINESS OVERVIEW

We are the largest producer of mechanical printing papers in western North America. We also produce northern bleached softwood kraft ("NBSK") pulp. On December 31, 2014, our business comprised three business segments: specialty printing papers, newsprint and pulp. Specialty printing papers included coated mechanical, uncoated mechanical and directory paper. We are the only producer of coated mechanical paper and soft-calendared mechanical paper in western North America. Our three pulp and paper operations in British Columbia are located at Crofton on the east coast of Vancouver Island, British Columbia, Port Alberni on central Vancouver Island, and Powell River on the west coast of the British Columbia mainland. On January 7, 2015, we acquired a paper and pulp mill in Rumford, Maine, USA that produces coated mechanical, coated freesheet and coated specialty paper as well as pulp, and a paper mill in Biron Wisconsin, USA that produces coated mechanical paper.

The chart below represents our expectation as to mill capacity in 2015, in thousands of tonnes, among the different product lines that can be produced at each mill. Capacity per product can vary as some of our paper machines are capable of producing more than one product line.

### 2015 Capacity by Mill Location and Product Line <sup>1</sup>

| Mill Location                   | Number Of Paper Machines | Specialty Printing Papers <sup>1</sup> |                    |                  |                   |           | Newsprint <sup>1</sup> | Market Pulp          | Total     |
|---------------------------------|--------------------------|----------------------------------------|--------------------|------------------|-------------------|-----------|------------------------|----------------------|-----------|
|                                 |                          | Uncoated Mechanical                    | Coated Specialties | Coated Freesheet | Coated Mechanical | Directory |                        |                      |           |
| Crofton, B.C. <sup>4</sup>      | 2                        | —                                      | —                  | —                | —                 | —         | 350,000                | 365,000 <sup>2</sup> | 715,000   |
| Port Alberni, B.C.              | 2                        | —                                      | —                  | —                | 224,000           | 116,000   | —                      | —                    | 340,000   |
| Powell River, B.C. <sup>5</sup> | 2                        | 348,000                                | —                  | —                | —                 | —         | —                      | —                    | 348,000   |
| Rumford, ME <sup>6</sup>        | 3                        | —                                      | 23,000             | 119,000          | 327,000           | —         | —                      | 120,000 <sup>3</sup> | 589,000   |
| Biron, WI <sup>6</sup>          | 2                        | —                                      | —                  | —                | 318,000           | —         | —                      | —                    | 318,000   |
| Total capacity (tonnes)         | 11                       | 348,000                                | 23,000             | 119,000          | 869,000           | 116,000   | 350,000                | 485,000              | 2,310,000 |
| % of total capacity             |                          | 15%                                    | 1%                 | 5%               | 38%               | 5%        | 15%                    | 21%                  | 100%      |

1 Capacities expressed in the above tables can vary as we are able to switch production between products, particularly coated mechanical, coated freesheet, coated specialties and machine-finished uncoated grades.

2 Total pulp capacity at Crofton is 395,000 tonnes, of which 365,000 tonnes are designated as market pulp with the remaining 30,000 tonnes being consumed internally.

3 Total pulp capacity at Rumford is 380,000 tonnes, of which 120,000 tonnes are designated as market pulp with the remaining 260,000 tonnes being consumed internally.

4 No. 1 paper machine at Crofton remains indefinitely curtailed.

5 No. 9 paper machine at Powell River was indefinitely curtailed on December 15, 2014.

6 Production capacity for 2015 includes the capacity of the paper and pulp mill in Rumford, Maine and the paper mill in Biron, Wisconsin that were acquired on January 7, 2015. Capacity of the US paper mills is based on 365 days of production.

### Specialty Papers

Our specialty printing papers can be manufactured on all of our paper machines. The specialty paper business segment has a total annual production capacity of 1,475,000 tonnes in 2015 which reflects 787,000 tonnes annual capacity for the newly acquired US paper mills.

Specialty printing paper products represent our largest business segment, generating 55% of our 2014 consolidated sales revenue (61% for 2013). Our customer base consists primarily of retailers, magazine, catalogue and book publishers, commercial printers and telephone directory publishers. Specialty printing paper products are sold primarily by our sales and marketing personnel in North America, and through distributors and agents in other geographic markets. In 2014, 88% of our specialty paper sales volumes were with customers in North America.

### Newsprint

Newsprint can be manufactured on three paper machines at Crofton and Powell River. The newsprint business segment has a current total annual production capacity of 350,000 tonnes in 2015.

Newsprint sales generated 21% of our 2014 consolidated sales revenue (18% for 2013). The newsprint customer base consists primarily of newspaper publishers located in Western and Central North America, Asia and Latin America. In 2014, 45% of our newsprint sales volumes were with customers in North America.

## Pulp

Our pulp segment consists of NBSK pulp manufactured on two production lines at the Crofton mill and hardwood and softwood kraft pulp manufactured on two production lines at the Rumford mill. The Crofton mill has a total annual production capacity of 395,000 tonnes of which approximately 30,000 tonnes represent capacity being consumed internally. The Rumford mill has a total annual production capacity of 380,000 tonnes of which 260,000 tonnes represent capacity being consumed internally. The pulp business segment has a total annual market production capacity of 485,000 tonnes in 2015.

Pulp sales generated 24% of our 2014 consolidated sales revenue (21% for 2013). In 2014, 100% of our pulp sales volume was sold to customers in Asia.

The pulp customer base includes producers of tissue, magazine papers, woodfree printing and writing papers and certain specialty paper products. Pulp is sold primarily by sales and marketing personnel based in Canada, and through a network of agents in locations throughout the world.

The following tables set out our total revenues by product and geographic market for each of the last three financial years:

| <b>Paper Sales <sup>1</sup></b> |                         |          |          |  |
|---------------------------------|-------------------------|----------|----------|--|
| <i>(In millions of dollars)</i> | Year Ended December 31, |          |          |  |
|                                 | 2012                    | 2013     | 2014     |  |
| United States                   | \$ 515.8                | \$ 523.9 | \$ 530.9 |  |
| Canada                          | 147.8                   | 121.6    | 108.6    |  |
| Latin America                   | 87.7                    | 102.7    | 106.4    |  |
| Asia and Australia              | 102.0                   | 79.2     | 98.2     |  |
| Europe and Other                | 0.4                     | —        | 0.5      |  |
|                                 | \$ 853.7                | \$ 827.4 | \$ 844.6 |  |

| <b>Pulp Sales</b>               |                         |          |          |  |
|---------------------------------|-------------------------|----------|----------|--|
| <i>(In millions of dollars)</i> | Year Ended December 31, |          |          |  |
|                                 | 2012                    | 2013     | 2014     |  |
| Asia and Australia              | \$ 201.9                | \$ 223.8 | \$ 263.3 |  |
| Europe and Other                | 2.6                     | 0.2      | 1.4      |  |
|                                 | \$ 204.5                | \$ 224.0 | \$ 264.7 |  |

<sup>1</sup> Excludes Snowflake sales; the Snowflake operation was classified as a discontinued operation in 2012 and comparative numbers were restated accordingly.

## PAPER MARKETING

The principal customers for our specialty printing papers and newsprint are retailers, magazine, book and catalogue publishers, commercial printers, telephone directory publishers and newspaper publishers. These customers are located primarily in western and central North America, Asia and Latin America. With the addition of the US paper mills, our specialty paper market share in eastern North America has increased significantly. Specialty printing paper and newsprint customers are served primarily by our sales and marketing personnel in North America and distributors and agents in other geographic markets. Historically, approximately two-thirds of our paper sales revenue has been generated from sales to customers in the United States. The United States is still the world's largest consumer of coated and uncoated mechanical paper and newsprint, representing 23% of the world's consumption for coated mechanical paper, 31% for uncoated mechanical paper and 13% for newsprint.

The Crofton mill is located on tidewater and has deep-sea vessel loading facilities. Specialty printing paper and newsprint is shipped overseas utilizing both deep-sea vessels and containers, and by a combination of barge, rail and truck for destinations in North America. We use the services of independent warehouses for distribution to our customers in other parts of the world.

## **PULP MARKETING**

Our Crofton pulp mill is well situated for export shipments to Asia. Our strategy is to maintain a diversified range of freight-logical customers, including producers of tissue, magazine papers, woodfree printing and writing papers and certain specialty paper products.

Pulp customers are served by sales and marketing personnel in Canada and the United States and a network of agents in locations throughout the world. The Crofton pulp mill is located on tidewater and has deep-sea vessel loading facilities. Pulp is shipped to offshore locations primarily by break bulk on deep-sea vessels.

## **COMPETITION**

The markets for our products are highly competitive on a global basis. The pulp and paper industry is essentially a commodity market in which producers compete primarily on the basis of price. In addition, since an important percentage of our production is directed to export markets, we compete on a worldwide basis against many producers of approximately the same or larger capacity. In export markets, Canadian producers generally compete with American, European and Asian producers.

## **FIBRE SUPPLY**

Our pulp and paper operations in Canada consume wood fibre which is purchased from more than 25 independent sawmills and more than 25 pulp log suppliers. Our fibre supply comes primarily from residual wood chips from sawmill operations located on the coast or in the southern interior of British Columbia and secondarily from the chipping of pulp logs originating from locations throughout the region.

In 2014, our fibre supply for our B.C. pulp and paper operations was comprised of sawmill wood chips and pulp logs. Approximately 70% of our fibre is provided by five suppliers. As it relates to the newly acquired US paper mills, fibre suppliers in the region are significantly less concentrated than our B.C. operations, with the top five suppliers for each respective mill providing 49% of fibre at the Rumford mill and 14% of fibre at the Biron mill.

Approximately 70% of our B.C. fibre is sourced under indefinite (evergreen) term fibre agreements with third party suppliers (some of which were put in place when we sold our timber and timber processing assets in the 1990s) with pricing based on market prices or at prices determined under market-based formulas and including an evergreen contract with a coastal log producer under which additional wood chips can be obtained from regional sawmills in exchange for sawlogs. For our newly acquired U.S. operations, approximately 79% is sourced directly from third parties with the remaining 21% sourced from short term stumpage purchases.

The remainder of the fibre requirements for our pulp and paper operations is sourced from independent suppliers, many under long-term contracts. Fibre is purchased from these suppliers at market prices or at prices determined under market-based formulas. From time to time we sell fibre to outside customers. We also engage in fibre trading activities to ensure optimum allocation of different fibre grades to the appropriate product.

Our operations are subject to a wide range of issues that can impact the availability and price of fibre supply, including suppliers' lumber market demand, sawlog supply, coastal solid wood industry restructuring, strikes, and regional market prices. The diversity of supply from over 50 independent suppliers in British Columbia located in three geographical regions helps to mitigate the risk of interruptions to fibre deliveries to our operations. Our production levels in 2014 and 2013 were not impacted by fibre shortages. For the Biron mill, which currently relies on the Lake States Wood Supply Group for its wood supply, wood supply interruption is a potential risk in 2015 if the region experiences a challenging late winter or longer winter break-up period given the very low inventories at the Biron mill and the other regional mills owned by Verso Corporation currently being supplied by the Lake States Wood Supply Group.

During the past five years, we have implemented a chain of custody system to certify our wood fibre supply. Approximately 75% of our total fibre basket in British Columbia is certified to either the Programme for the Endorsement of Forest Certification ("PEFC") or Forest Stewardship Council ("FSC") standard. PEFC is an independent non-profit organization that assesses and mutually recognizes national forest certification programs developed through multi-stakeholder processes. The PEFC standard is a third party audited system that identifies the source of wood fibre and whether or not it is derived from a forest independently certified as being managed in accordance with a recognized sustainable forest certification system.

## COMPETITIVE STRENGTHS

We believe that we have the following competitive strengths:

Cost-Competitive Manufacturing. Our financial results are driven by our manufacturing costs, particularly with respect to furnish costs, energy prices and usage and labour costs. We are focused on reducing these costs and improving margins, while maintaining or improving the quality of our products. There is a particular focus on finding ways to improve controllable operating costs and on developing more flexible and efficient work practices at the mills that will reduce manufacturing costs in the aggregate and create a shift in the proportion of fixed to variable costs. We have reduced our labour costs through our new labour agreements in 2012 and have made significant capital expenditures over the past six years to shift production towards higher-margin printing papers, reducing unit production costs, increasing machine productivity, improving product quality, and meeting or exceeding environmental regulations.

Strong Market Position. We are the largest producer and marketer of printing papers (newsprint and specialty printing papers) in Western North America with production capacity of approximately 1.5 million tonnes of paper and pulp. We are the only producer of coated mechanical and supercalendered papers in Western North America and the largest producer of glossy paper in the region. Our Crofton operation is a tidewater mill giving it reliable, low-cost access to international pulp and paper markets via breakbulk vessels. The acquisition of the Rumford paper and pulp mill and Biron paper mill on January 7, 2015 significantly increases our coated paper market share in North America in general and eastern North America in particular.

Diversified Product Mix and Product Development. We are focused on optimizing our product mix by developing higher value grades and introducing new product lines, which allow us to explore niche opportunities in the marketplace. The most recent additions to our extensive lineup are the coated paper and market pulp grades and related brands that were purchased as part of the acquisition of the Rumford paper and pulp mill and the Biron mill. The Biron paper mill produces lightweight coated and ultra-lightweight coated paper. The Rumford paper and pulp mill produces coated specialty, coated freesheet and coated mechanical paper, as well as Kraft market pulp. The newly acquired U.S. mills will continue to sell their paper and pulp grades under existing brand names that were purchased as part of the acquisition which consist of Vision, Escanaba, Dependoweb, Capri and Consoweb for their coated mechanical grades, Orion for their coated freesheet grades, Oxford for their coated specialty grades, and Swift River Kraft for their market pulp grades. These coated paper grades both widen the range of our product offering and add higher quality specialty paper grades to our production capacity. Specialized products generally provide higher margins and improved demand prospects than standard commodity grades. In 2013, we introduced Ascent, a lightweight coated graphic and printing paper. In 2012, we introduced Marathon Lite, an ultra-light newsprint grade that offers publishers and printers environmental and economic benefits of a lighter sheet without sacrificing print quality or runnability. In 2010 we introduced Pacificote™, a high brightness and high gloss paper with superior printability ideal for magazine, catalogue, insert and direct mail advertising applications. We also launched Electrabrite™ Book, a range of caliper-controlled grades for book publishers, Electrabrite 100% recycled high-bright grade papers (a grade that was produced at Snowflake prior to its closure in 2012) and E-Star Max, an 84-bright uncoated mechanical grade for commercial printing. These are our most recent additions to our expansive range of Electra-paper grades that include Electraprime™ (a soft-calendered, high-brightness paper designed to compete as an alternative to traditional supercalendered grades and used primarily for advertising inserts and flyers), Electrastar™ (a super high-brightness grade designed for applications in which brightness is a desirable characteristic such as inserts and specialty newspapers), Electrabrite Lite (a lighter basis weight, high-brightness product that is used by newspapers and retailers) and Electracote Brite (a brighter, heavier-coated paper ideal for magazines, catalogue or retail insert applications as an attractive alternative to more expensive coated grades). We also introduced our Sage line of specialty printing papers in 2010 which allows us to offer the Pacificote and Electra-grades as being manufactured carbon-neutral from certified wood fibre from sustainably managed forests with documented verification. We manage fluctuations in demand for our products through our ability to switch production between products and machines, particularly coated mechanical, coated freesheet, coated specialties and machine-finished uncoated grades.

Efficient Supply Chain Management Practices. Distribution costs have a significant impact on net sales realizations. Our strong and flexible distribution network optimizes all transportation modes available to us, such as barge, truck, rail, breakbulk, and container shipping. Controlling key elements of our supply chain has allowed us to control costs while achieving a high on-time delivery performance and low damage levels especially to west coast print sites where our strategic importance to customers is highest. Our Crofton mill site directly ships breakbulk to offshore customers via regularly scheduled vessels. We operate a central distribution centre in Surrey, B.C. which continuously receives volumes from our three British Columbia mills and then ships via rail, truck and container to our customers. This allows us to choose the most cost effective transportation mode in conjunction with customer requirements. We also lease or otherwise have available 572 paper quality boxcars to ensure adequate car

supply. Specialized software is used to maximize payloads in rail, truck, and containers while ensuring each load is safe, legal, and minimizes risk of transit damage. We lease two barges which we use in conjunction with a third party towing company to transport our products to the Surrey Distribution Centre. The acquisition of the US paper mills increases the geographic diversification of our mills and storage warehouses which creates opportunities to further optimize distribution costs by supplying customers from the most freight-logical mill locations.

## **BUSINESS STRATEGY**

Our objective is to return to profitability and maximize cash flows by focusing on reducing manufacturing costs and optimizing our brands and customer base in a socially responsible manner. In 2015, the focus will be on objectives and initiatives in four areas:

### **SOCIAL**

- Safety: reduce medical incident rate and lost-time injury frequency by 20% compared to the prior year.
- Improve employee alignment and performance through effective performance review and compensation practices, and by delivering new recruitment, on-boarding, training and development programs.

### **FINANCIAL**

- Deliver positive free cash flow results for our Canadian operations and newly acquired US mills in 2015.
- Realize benefits of \$20 million by continuing to drive the OFI program at our Canadian operations, and realize additional benefits of \$10 million for our U.S. mills by capturing identified synergies and other operational improvements.
- Successfully integrate the Biron and Rumford mills into our operations by completing the transition and separation of services, systems and infrastructure within twelve months, and ensuring that costs related to transition and separation do not exceed US\$12 million for the year.
- Powell River revitalization: implement changes that more than offset the lost contribution resulting from the indefinite curtailment of Powell River No. 9 paper machine to ensure the future viability and profitability of the mill's operations.
- Mitigate the impact of energy cost rate increases by advancing capital projects under the BC Hydro Power Smart Program, managing the load curtailment program, and by pursuing further cost mitigation initiatives.
- Continuously reduce costs and improve productivity in all of our operations through identifying and implementing opportunities for operational improvement and efficiency, capital planning and cost reviews.

### **COMMERCIAL**

- Optimize product offering by harmonizing brands and grades across the five mills and capturing synergies related to freight and customer mix optimization.
- Achieve product mix improvements for our US mills by increasing Biron's market share of ultra-lightweight coated paper and increasing Rumford's market share of coated freesheet and specialty one-sided paper.

### **ENVIRONMENTAL**

- Work with community stakeholders to identify and implement strategic initiatives that mutually benefit our mills and the communities they operate in.
- Adhere to high international standards for transparency and reporting of performance on social, governance and environmental factors.

## C. ORGANIZATIONAL STRUCTURE

We own all of the issued and outstanding shares of the following principal subsidiaries as of December 31, 2014:

| <b>Subsidiaries</b>                | <b>Jurisdiction</b> |
|------------------------------------|---------------------|
| Elk Falls Pulp and Paper Limited   | British Columbia    |
| Catalyst Pulp Operations Limited   | British Columbia    |
| Catalyst Pulp Sales Inc.           | British Columbia    |
| Catalyst Pulp and Paper Sales Inc. | British Columbia    |
| Catalyst Paper (USA) Inc.          | California          |
| Catalyst Paper Holdings Inc.       | Delaware            |
| Catalyst Paper (Snowflake) Inc.    | Delaware            |
| Pacifica Papers Sales Inc.         | Delaware            |
| Pacifica Poplars Ltd.              | British Columbia    |
| Pacifica Poplars Inc.              | Delaware            |
| Pacifica Papers U.S. Inc.          | Delaware            |
| Catalyst Paper Operations Inc.     | Delaware            |

We are a partner of the British Columbia general partnership Catalyst Paper. We hold a 71.3% interest in the partnership and our subsidiary, Catalyst Pulp Operations Limited, holds the remainder.

## D. PROPERTY, PLANT AND EQUIPMENT

### PAPER

#### Paper Operations

Our specialty printing paper and newsprint can be manufactured on 13 paper machines at five mill locations. Our paper machines consist of the following:

| <u>Crofton</u>                            | <u>Product</u>      |
|-------------------------------------------|---------------------|
| Paper Machine No. 1 ("C1") <sup>(1)</sup> | Specialty/Newsprint |
| Paper Machine No. 2 ("C2")                | Newsprint           |
| Paper Machine No. 3 ("C3")                | Newsprint           |
| <u>Port Alberni</u>                       | <u>Product</u>      |
| Paper Machine No. 4 ("A4")                | Specialty           |
| Paper Machine No. 5 ("A5")                | Specialty           |
| <u>Powell River</u>                       | <u>Product</u>      |
| Paper Machine No. 9 ("P9") <sup>(2)</sup> | Specialty           |
| Paper Machine No. 10 ("P10")              | Specialty           |
| Paper Machine No. 11 ("P11")              | Specialty/Newsprint |
| <u>Biron</u>                              | <u>Product</u>      |
| Paper Machine No. 25 ("B25")              | Specialty           |
| Paper Machine No 26 ("B26")               | Specialty           |
| <u>Rumford</u>                            | <u>Product</u>      |
| Paper Machine No. 10 ("R10")              | Specialty           |
| Paper Machine No. 12 ("R12")              | Specialty           |
| Paper Machine No. 15 ("R15")              | Specialty           |

Our estimated 2015 capacity to produce specialty printing papers and newsprint, in tonnes, as compared to our production for each of the last two years is as follows (includes tonnes produced that were transferred to beater) :

| Mill                        | Annual Capacity<br>2015 (tonnes) | Net Production<br>Year ended December 31 (tonnes) |           |
|-----------------------------|----------------------------------|---------------------------------------------------|-----------|
|                             |                                  | 2014                                              | 2013      |
| Crofton <sup>(1)</sup>      | 350,000                          | 332,289                                           | 318,274   |
| Port Alberni                | 340,000                          | 333,040                                           | 312,594   |
| Powell River <sup>(2)</sup> | 348,000                          | 405,087                                           | 433,003   |
| Biron                       | 318,000                          | —                                                 | —         |
| Rumford                     | 469,000                          | —                                                 | —         |
|                             | 1,825,000                        | 1,070,416                                         | 1,063,871 |

1. We have indefinitely curtailed our No.1 paper machine at Crofton, displacing the equivalent of 140,000 tonnes of annual newsprint production from Crofton. The capacity noted above does not include the capacity of that paper machine.
2. We indefinitely curtailed our No. 9 paper machine at Powell River on December 15, 2014, displacing the equivalent of 110,000 tonnes of annual uncoated mechanical production from Powell River. The capacity noted above does not include the capacity of that paper machine.

### *Crofton*

Crofton's capacity is 350,000 tonnes of newsprint. C1 at Crofton was curtailed from February 1, 2009 to May 25, 2009 and indefinitely curtailed since January 21, 2010.

The Crofton paper mill's three paper machines commenced operation in 1964, 1968 and 1982. All three machines are capable of producing either newsprint or directory paper as market conditions warrant but C2 and C3 are currently dedicated to producing newsprint. All machines were installed with, or have been converted to, twin-wire sheet formation, which provides a more uniform quality of sheet for both printing surfaces. Pulp furnish for the paper mill is supplied by a three-line TMP mill.

### *Port Alberni*

Port Alberni's annual capacity is 340,000 tonnes of directory paper and lightweight coated paper.

The Port Alberni paper mill has two paper machines, one was put into operation in 1957 and the other in 1968. A5 was upgraded in 1995 to produce lightweight coated paper and is the only lightweight coated paper machine in western North America. Its on-line technology allows for the coating of paper on both sides simultaneously, reduces the amount of kraft pulp required to produce conventional lightweight coated paper and produces the desired product quality in terms of runability, printability and bulk.

Pulp furnish for the paper mill is supplied primarily from the mill's TMP plant. An \$8 million upgrade to the mill's TMP plant was completed in May, 2009 which increased the TMP facility's capacity and displaced higher cost pulp. Equipment at the Port Alberni mill allows us to use crumb kraft pulp from the Crofton mill in our lightweight coated paper.

### *Powell River*

Powell River's annual capacity is 348,000 tonnes of uncoated specialty papers. The Powell River mill has three paper machines, which were put into operation in 1957, 1967 and 1981. These machines produce machine finished super-brights and hi-brights, soft calendered hi-bright papers and newsprint. The P9 paper machine was temporarily curtailed on October 27, 2014 and indefinitely curtailed on December 15, 2014 due to a lack of orders and a declining market for the paper manufactured on it. P9 had been dedicated to the production of Electrastar™ and Electrabrite™ grades, our super-bright and hi-bright grades, respectively. In 2004, we upgraded P10 and the peroxide bleach plant to support the production of higher value specialty printing papers, including Electracal™ and Electraprime™ grades. We continue our effort to push towards the development of high-brightness products at our Powell River mill, and in 2005 we completed a further upgrade of the peroxide bleach plant to expand the mill's production capacity for higher brightness uncoated specialty printing grades. Pulp furnish for the paper mill comes primarily from a TMP plant. The Powell River mill also has the capability to use recycled de-inked pulp on a limited scale.

PREI owns two hydroelectric dams near the Powell River mill with a combined generating capacity of 83 megawatts and provides the power generated by its facilities to us under a power purchase agreement between us and PREI

which expires in 2016 with extensions to 2021 in one-year renewal term increments at our option. Payments to PREI under the power purchase agreement and related agreements are essentially equivalent to the applicable British Columbia Hydro and Power Authority rate from time to time. PREI's hydroelectric facilities supply approximately 40% of the annual power needs of the Powell River mill, although this amount varies depending on hydrological conditions. The power purchase agreement and related agreements continue in effect after the sale of our interest in PREI in 2013.

### *Biron*

Biron's annual capacity is 318,000 tonnes of lightweight and ultra-lightweight coated groundwood paper. Production currently consists of approximately 70% rotogravure grades and approximately 30% web-offset grades.

The Biron paper mill has two paper machines, B25 which was put into operation in 1957 and B26 which was put in operation in 1986. B25 was the subject of a major rebuild in 1999, is outfitted with an off-machine, two-station coater, and produces both offset and rotogravure coated groundwood paper. B26 was subjected to major rebuilds in 1996, 1997, 2003 and 2005, is outfitted with an on-machine, two-station coater, and produces both offset and rotogravure coated groundwood paper.

Pulp furnish for the paper mill is supplied primarily from the mill's three-line TMP plant and its stone groundwood facility.

### *Rumford*

Rumford's annual capacity is 469,000 tonnes of coated one-sided specialty, coated freesheet and coated groundwood paper.

The Rumford paper mill has three paper machines, R10 which was put into operation in 1964, R12 which was put in operation in 1948, and R15 which was put in operation in 1980. R10 has benefited from various upgrades in 1990, 1998, and 2005 and produces coated one-sided specialty, coated freesheet and coated groundwood paper. R12 has benefited from upgrades in 2005, 2010 and 2012 and produces coated one-sided specialty, coated freesheet and coated groundwood paper. R15 has benefited from various upgrades from 1993 to 2012 and produces coated freesheet and coated groundwood paper.

Pulp furnish for the paper mill is supplied primarily from the mill's two kraft pulp lines and a groundwood pulping facility.

### **Pulp**

#### Pulp Operations

We manufacture market pulp on two lines of pulp production at our Crofton mill. We manufacture softwood and hardwood market kraft pulp at our Rumford mill. Our annual pulp production capacity for 2015 is 775,000 tonnes.

Our annual market pulp capacity is 485,000 tonnes (which excludes pulp consumed internally) as compared to market pulp production for the years ending December 31, 2014 and December 31, 2013 of 355,000 tonnes and 323,200 tonnes, respectively.

The first pulp line at Crofton began operating in 1957 and the second in 1965. This mill is equipped with one continuous digester and eight batch digesters, which provide the flexibility to cook different species of chips independently. Crofton's batch digesters utilize a rapid displacement heating cooking system. This system allows for quick turnaround in the batch cooking process, because it rapidly extracts and replaces the cooking liquor in the cooking vessel for each batch without a significant loss in temperature. This technology improves the overall quality of Crofton's pulp and provides a stronger and more uniform pulp than conventional batch cooking. The Crofton kraft pulp mill produces Northern bleached softwood kraft, or NBSK pulp grades. One grade is a low coarseness fine fibre pulp is marketed as CKBC. This pulp is consumed internally at our Port Alberni and Powell River operations and sold to market customers. CKBC is a high tensile strength grade which is ideally suited for the manufacture of lightweight papers and tissue. The other pulp grade produced is made from spruce, pine and fir, coastal hemlock and Douglas fir species and is marketed as CKHF. This grade has high intrinsic strength and bulk, and is used in a variety of printing and writing papers and a range of specialty papers.

The two pulp lines at Rumford were rebuilt in 1990 and produce both hardwood and softwood kraft pulp. This mill is equipped with one continuous digester that produces softwood kraft pulp, and ten batch digesters that produce hardwood kraft pulp but with swing capacity on four batch digesters to produce softwood kraft pulp. The hardwood kraft line is outfitted with an elemental chlorine free chemical bleaching process and benefited from a major upgrade in 2001. The softwood kraft line is also outfitted with an elemental chlorine free chemical bleaching process.

## **PROPERTIES**

Our head office is located in leased premises in Richmond, British Columbia. The lease covers an aggregate of 39,275 square feet and expires March 31, 2018.

We sub-lease the land and buildings for our distribution warehouse and facility in Surrey, British Columbia, which expires in June 2019, subject to further options to renew. We lease the premises for our Nanaimo office pursuant to a lease which expires November, 2015. We lease the premises for our sales office in Seattle, Washington pursuant to a lease which expires in November, 2016.

Each of our Crofton, Powell River and Port Alberni manufacturing facilities in British Columbia is situated on land we own. The Crofton mill is located on a 107 hectare site, the Powell River mill is located on a 94 hectare site and the Port Alberni mill is located on a 44 hectare site. The newly acquired US mills are situated on land we own, with the Rumford mill located on a 98 hectare site and the Biron mill located on a 43 hectare site. The Snowflake mill site lands were sold as part of the sale of the Snowflake assets and shares of The Apache Railway Company in January 2013.

## **ENVIRONMENT**

Our operations are subject to a wide range of general and industry-specific environmental laws and regulations including those related to waste management, air emissions, water discharges and remediation of environmental contamination. There has been significant upgrading of our facilities during the past two decades to comply with solid and hazardous wastes, effluent and air regulations. Environmental performance is monitored regularly by us, third party consultants and government regulatory bodies. We believe that our facilities are operating in substantial compliance with applicable environmental laws and regulations.

In addition to regular monitoring of emission points and reporting to regulatory authorities, we manage our environmental performance through an environmental management system. This system is registered to the ISO 14001:2004 standard at all three of our operating facilities in British Columbia. The environmental management system utilizes annual internal surveillance audits and external compliance audits of our manufacturing facilities and the Surrey Distribution Centre. Action plans are developed to address any deficiencies and updates are regularly communicated to management and a committee of the Board. Compliance audits at the active B.C. operations were completed during 2012. No new material issues were uncovered during those audits.

Numerous federal and provincial environmental initiatives are underway which could translate into more vigorous regulatory standards and permits in the next decade. Issues that have been targeted include water regulation, air emissions particulates, sulphur dioxide and greenhouse gases. A number of those initiatives are described below.

### *Solid Waste*

An ongoing environmental issue faced by our operations is the disposal of solid waste. Most non-recyclable waste is disposed of at on-site landfills. Based on current practice we have at least ten years' capacity in our key landfills at Crofton, Port Alberni and Powell River related to our operations in British Columbia. The Rumford mill disposes of its solid waste in a mill-owned landfill, while Biron disposes of its solid waste in a landfill that is owned and operated by Verso Corporation's Water Quality Center per the terms of an indefinite term agreement called the "*Wastewater and Waste Disposal Services Agreement*" entered between Catalyst Paper and Verso Corporation as of January 7, 2015. We continue to work to reduce volumes sent to landfill by increasing recycling efforts and investigating alternative uses for all waste.

### *Effluent*

In 2003, we began an initiative to reduce water use at all facilities. We delivered total reductions in water use of 22% between 2003 and 2008 on an absolute basis (17% on an intensity basis). Since 2008, our absolute water use decreased by approximately 33% or 53 million m<sup>3</sup> due to closure of the Elk Falls and Paper Recycling Divisions.

Water use intensity increased by 13% for the same period due to increased production rates of brighter coated paper and kraft pulp production which consume more water compared to typical mechanical papers. The Rumford mill discharges and treats an average of 30 million gallons of waste water per day in its effluent treatment plant. The Biron mill discharges an average of 7 million gallons of water per day, which is transferred to the Verso Corporation owned Water Quality Center for treatment per the terms of the "Wastewater and Waste Disposal Services Agreement."

#### *Air Emissions*

Over the past twenty years, substantial capital has been spent at all facilities upgrading air emissions controls and infrastructure. This includes odour collection and treatment systems and new precipitators at Crofton, a fluidized bed boiler conversion at Port Alberni and a fluidized bed boiler at Powell River. Our facilities are well positioned to be compliant with future air emissions standards, which will likely focus on fine particulates, sulphur oxides and other criteria air contaminants.

In 2013, federal, provincial and territorial governments established voluntary base level industrial emission requirements ("BLIERS") that set a base level of performance for major industries in Canada with respect to particulate matter and sulphur dioxides ("SO<sub>2</sub>"). Catalyst is in compliance with the BLIERS standard for pulp and paper mills.

Our US operations are subject to various stringent air regulations including the USEPA's MACT standards. One boiler at Biron and two at Rumford are impacted by the standard and may require capital infusion of approximately \$6 million in total by end of 2016 to meet their respective deadlines of January 31, 2017. Federal authorities could revise the standard before it comes into force and the company continues to consider all approaches to reaching compliance including fuel switching, emissions controls, and energy reduction initiatives.

#### *Climate Change*

We have long recognized the importance of reducing greenhouse gas ("GHG") emissions, from the perspective of both stakeholder expectations and expanding regulatory requirements. At our Canadian operations, direct GHG emissions in 2014 were at 16% of their 1990 levels on an absolute basis.

We have been recognized through the Carbon Disclosure Project for the quality and financial relevance of our climate change disclosure and we introduced our Sage line of environmentally preferred products in 2010 and continue to offer manufactured carbon neutral products. By virtue of early response and rigorous carbon accounting, we believe we are well positioned relative to developments like the implementation of a carbon tax. The B.C. government imposed a broad based carbon tax on fossil fuels commencing July 1, 2008. On July 1, 2012, the tax rate reached its maximum of \$30/tonne of carbon dioxide equivalent emissions.

Our Canadian operations may be affected by the regulation of GHGs: The Federal government has proposed combustion appliance based standards which could come into effect in 2020 and all Canadian mills currently meet those standards with ease. British Columbia announced its goal of reducing the provincial release of GHGs by 33% by 2020, based on 2007 levels, with interim reduction targets of 6% by 2012 and 18% by 2016. B.C. has not issued regulations for this GHG reduction program at this time. It is too early to determine the impact on the company under such a program.

#### *Environmental Expenditures*

In 2014, we spent approximately \$1.0 million on environmental capital projects. We estimate that capital expenditures relating to known environmental matters, including compliance issues and the assessment and remediation of the environmental condition of our properties, will total approximately \$0.6 million in 2015.

#### *Contaminated Sites*

British Columbia contaminated sites legislation specifies the circumstances in which a "site profile" must be prepared in respect of any property that has been used for certain industrial or commercial purposes. If a site is determined to be contaminated, remediation will normally be required under government supervision. As current and past owners of mill sites, all forest products companies in British Columbia may face remediation costs particularly as a result of historical operations and disposal practices. Compliance with this legislation has not resulted in any material cost to us but there can be no guarantee that such costs will not be incurred in the future as a consequence, for example, of

the discovery of unknown conditions or changes in enforcement policies. We are not aware that any of our sites or land parcels are considered by the Province to be contaminated under the Province's contaminated sites legislation.

## **SOCIAL RESPONSIBILITY**

### *Fibre Certification Chain of Custody*

We have implemented the FSC, PEFC and SFI chain of custody systems to verify that select paper products made at our Canadian and American mills contain 100% certified wood fibre. Certified fibre is an effective means of providing customers and stakeholders with surety that our forest based products come from sustainability well managed, non-controversial sources of wood. We annually disclose our fibre pedigree in our annual Sustainability Report and through the CDP Forests program enhancing our transparency and public access to accurate data. Catalyst does not currently source any virgin wood fibre from boreal forest sources.

### *Aboriginal Relations and Business Development*

We continue to maintain cordial relationships with numerous First Nations bands in proximity of our mills, and to develop aboriginal business initiatives at a pace and scope suitable to the capacity of each band. The most extensive initiative is a limited partnership with the Tla'amin ("Sliammon") Nation and the City of Powell River which was formed in 2006. On August 29, 2014, we completed the sale of our interest in PRSC Limited Partnership and PRSC Land Development Ltd., including the repayment of the mortgage receivable, to the Tla'amin First Nation and City of Powell River for proceeds of \$3.0 million. In Port Alberni, we continue to discuss opportunities with First Nations groups.

### *Carbon Emission Reduction Reporting*

We continue to participate in the Carbon Disclosure Project, a study backed by institutional investors worldwide. We consider this an important global reporting initiative that reinforces the need for risk-return analysis by companies and their investors of the potential impact of environmental factors such as climate change on business and industry operations.

This complements our voluntary initiative with World Wildlife Fund Inc. ("WWF") and the Center for Energy and Climate Solutions, a division of Global Environment & Technology Foundation to reduce direct CO<sub>2</sub> emissions at our British Columbia based facilities to 75% below our 1990 emissions by the year 2020. Our 2014 absolute greenhouse gas emissions from our BC mills were 16% of 1990 levels.

### *Clean Production Initiative*

As consumer and regulatory focus on toxic substances of concern has grown, we worked with WWF Canada over the last decade transitioning to direct measurement of priority emissions. Under this joint initiative, we have been able to characterize our mills' emissions based on testing of actual emissions rather than use of data derived from emission factors. The Clean Production Initiative extended to procurement of chemicals and reductions of substances of concern. The initiative was completed in 2013 and we are currently working with WWF with a view to developing other programs.

## **ITEM 4A UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

### **A. OPERATING RESULTS**

The following operating and financial review and prospects provides information that we believe is useful in understanding our operating results, cash flows and financial condition for the three years ended December 31, 2014.

## **Business overview**

Operating earnings for the year increased due to the positive impact of a weaker Canadian dollar, higher pulp sales volumes and transaction prices, increased newsprint sales and a reduced impairment charge on our long-lived assets compared to the prior year. This was partially offset by higher manufacturing costs, lower average transaction prices for paper and reduced specialty paper sales. The increase in pulp sales was in line with a step change in pulp productivity resulting from two debottlenecking initiatives completed on the Crofton pulp mill.

Manufacturing costs crept higher due to an increase in the cost of fibre, fillers, chemicals, distribution, electric power and steam fuel. Fibre costs increased due to higher pulp pricing, the strong US dollar drove the cost of fillers, chemicals and distribution higher, and electric power costs reflected a 9% hydroelectricity rate increase effective April 1, 2014. Increased manufacturing costs also reflect the de-recognition of our interest in Powell River Energy, formerly consolidated as a variable interest entity prior to the sale of our interest which reduced manufacturing costs in 2013 by \$4.3 million.

We indefinitely curtailed the Powell River No. 9 paper machine in December due to declining demand for the uncoated mechanical paper products produced on that machine. The curtailment negatively impacted manufacturing costs and profitability in the fourth quarter due to the typical delay in fully eliminating all costs directly and indirectly related to operating the machine of approximately \$1.0 million per month.

We completed the acquisition of the US paper mills in Biron, Wisconsin and Rumford, Maine on January 7, 2015. Acquisition costs of \$3.1 million were incurred in the fourth quarter consisting mostly of legal and consulting fees.

## **Financial Performance**

We recorded a net loss attributable to the company of \$72.3 million and a net loss attributable to the company before specific items of \$28.3 million in 2014. This compared to a net loss of \$127.6 million and a net loss attributable to the company before specific items of \$31.5 million in 2013.

Significant specific items in 2014 included an impairment charge on fixed assets, acquisition costs related to the US paper mills, restructuring costs related to the Powell River No. 9 indefinite curtailment, settlement loss on a multi-employer pension plan liability related to the discontinued Snowflake mill, a foreign exchange loss on the translation of U.S. dollar denominated debt, a gain on the sale of a mortgage receivable from PRSC Limited Partnership and interest in PRSC Land Development Ltd and a net loss on the settlement of debt.

Significant specific items in the prior year included reorganization costs related to finalizing the creditor protection proceedings, a net gain on the sale of non-core assets including the Snowflake mill, our interest in Powell River Energy and the Elk Falls site, a settlement gain on our Salaried Plan under the special portability election option, a loss on the purchase of floating rate senior secured notes due 2016 (Exit Notes), an impairment charge on goodwill and fixed assets, and a foreign exchange loss on the translation of U.S. dollar denominated debt.

## Selected Annual Financial Information

(In millions of dollars, except where otherwise stated)

|                                                                                              | 2014       | 2013       | 2012       |
|----------------------------------------------------------------------------------------------|------------|------------|------------|
| Sales <sup>2</sup>                                                                           | \$ 1,109.3 | \$ 1,051.4 | \$ 1,058.2 |
| Operating earnings (loss) <sup>2</sup>                                                       | (13.5)     | (87.8)     | 19.1       |
| Depreciation and amortization <sup>2</sup>                                                   | 44.6       | 47.0       | 36.3       |
| Adjusted EBITDA <sup>1,2</sup>                                                               | 47.6       | 46.1       | 55.4       |
| – before restructuring costs <sup>1,2</sup>                                                  | 48.1       | 47.3       | 60.7       |
| Net earnings (loss) attributable to the company                                              | (72.3)     | (127.6)    | 583.2      |
| – before specific items <sup>1</sup>                                                         | (28.3)     | (31.5)     | (37.8)     |
| Total assets                                                                                 | 668.7      | 700.1      | 978.8      |
| Total long-term liabilities                                                                  | 624.0      | 565.5      | 720.6      |
| Adjusted EBITDA margin <sup>1,2</sup>                                                        | 4.3%       | 4.4%       | 5.2%       |
| – before restructuring costs <sup>1,2</sup>                                                  | 4.3%       | 4.5%       | 5.7%       |
| Net earnings (loss) per share attributable to the company's common shareholders (in dollars) |            |            |            |
| – basic and diluted from continuing operations                                               | \$ (4.99)  | \$ (9.01)  | \$ 41.65   |
| – basic and diluted from discontinued operations                                             | –          | 0.21       | (1.15)     |
| – before specific items                                                                      | (1.95)     | (2.17)     | (2.62)     |
| (In thousands of tonnes)                                                                     |            |            |            |
| Sales <sup>2</sup>                                                                           | 1,389.3    | 1,373.3    | 1,401.4    |
| Production <sup>2</sup>                                                                      | 1,403.5    | 1,382.6    | 1,388.6    |
| Common shares (millions)                                                                     |            |            |            |
| At period-end                                                                                | 14.5       | 14.5       | 14.5       |
| Weighted average                                                                             | 14.5       | 14.5       | 14.4       |

1 Refer to *Non-GAAP measures*.

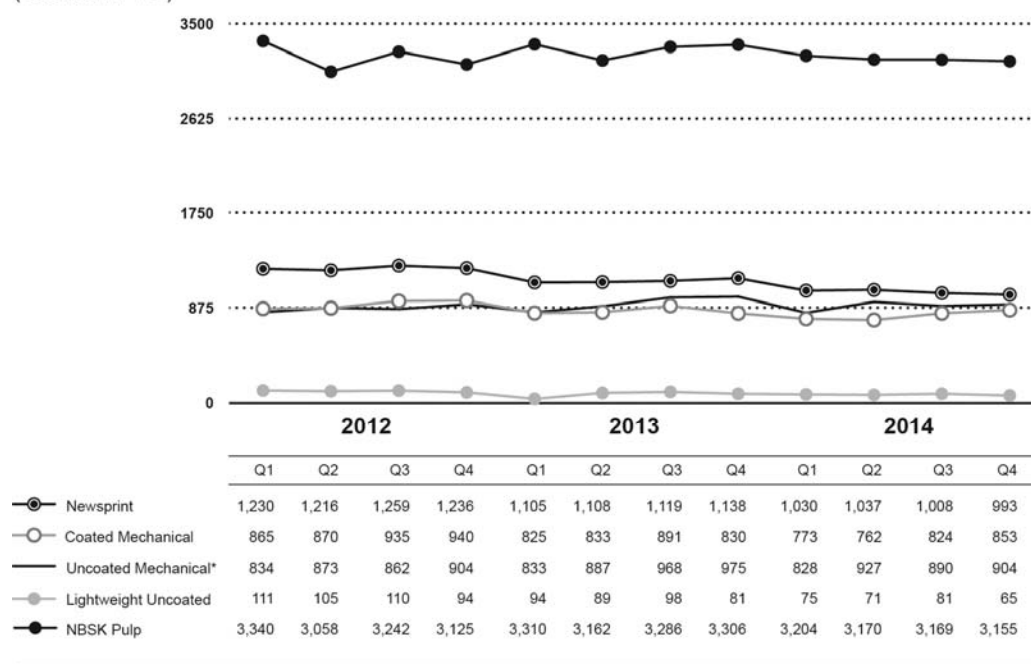
2 Numbers exclude the Snowflake mill's results from operations which have been reclassified as discontinued operations; earnings from discontinued operations, net of tax, are shown separately from continuing operations in the consolidated statements of earnings (loss) in our annual consolidated financial statements for the year ended December 31, 2014.

## Market Overview

### North American Paper Demand and NBSK Pulp Shipments

(in thousands of metric tonnes)

(Source: PPPC)



\* Uncoated mechanical is comprised of high-gloss and standard grades.

North American demand decreased for all paper grades in 2014. The decline in North American demand was most significant for directory and newsprint. Strong exports to Asia, however, partly compensated for weak domestic newsprint demand. Compared to 2013, inventory levels at the end of 2014 increased for newsprint and uncoated mechanical and declined for lightweight coated (LWC) and directory. Average benchmark prices for the year decreased for all specialty paper grades and increased for newsprint compared to the prior year.

The global market for NBSK pulp decreased due to weaker demand in China. NBSK pulp benchmark prices for China increased in 2014.

### **Purchase of Mills in Maine and Wisconsin**

On January 7, 2015, we completed the acquisition of the Biron paper mill located in Wisconsin and the Rumford paper and pulp mill located in Maine, USA from NewPage Corporation, NewPage Wisconsin System Inc., and Rumford Paper Company. The cash payment made on closing was US\$62.4 million, after giving effect to an adjustment under the purchase agreement based on estimated working capital at closing, and the final purchase price is subject to certain additional post-closing adjustments.

The acquisition was financed through advances under our ABL Credit Facility. The company entered into an amendment to its ABL Credit Facility to increase the maximum amount of credit available thereunder from \$175.0 million to \$225.0 million. The company also issued PIK Toggle Senior Secured Notes due 2017 (Offered Notes) with a principal amount of US\$25.0 million. The Offered Notes are on substantially the same terms and form part of the same series as Catalyst's existing PIK Toggle Senior Secured Notes due 2017 (2017 Notes). The Offered Notes were issued at a 20% discount to face value with Catalyst receiving gross proceeds under the Offering of US\$20.0 million. Acquisition costs will total approximately \$5.0 million of which \$3.1 million was incurred in the fourth quarter.

The Biron paper mill produces lightweight coated and ultra-lightweight coated paper. The Rumford paper and pulp mill produces coated specialty, coated freesheet and coated mechanical paper, as well as Kraft market pulp.

As the acquisition of the Rumford and Biron mills occurred after our year end on December 31, 2014, except where specified otherwise, the financial results described in this Annual Report do not incorporate or account for the acquisition or integration of these mills into our operations.

### **Indefinite Curtailment of Powell River No. 9 Paper Machine**

On December 15, 2014, we indefinitely curtailed Paper Machine No. 9 at Powell River after temporarily curtailing the machine on October 27, 2014 due to a lack of orders and a declining market for the paper manufactured on No. 9. We expect that this curtailment will result in the elimination of approximately 50 positions at the Powell River operations (43 employees) and the Surrey Distribution Centre (seven employees) from where product manufactured on No. 9 were stored and shipped. While we do not anticipate that the outlook for product manufactured on No. 9 will change in the foreseeable future, No. 9 will continue to be maintained for the time being. The indefinite curtailment resulted in reduced production of approximately 19,200 tonnes of uncoated mechanical paper.

We recognized a non-cash impairment charge of \$16.5 million on long lived assets that comprised Paper Machine No. 9 and on parts and supplies related to No. 9.

### **Fatality at Crofton Mill**

On December 9, 2014, a contract truck driver was fatally injured while working at the Crofton mill. The contract truck driver was delivering wood chips to the mill on the evening of December 9 when he was discovered missing by mill personnel. The mill activated its Emergency Response Plan, and the RCMP and WorkSafe BC were promptly contacted to launch an investigation at the site. WorkSafe BC is leading the investigation into the circumstances surrounding the accident to determine cause. The RCMP and the Coroner's Office are also investigating and the company is fully supporting the investigations. The fatality recovery operation resulted in lost paper production of approximately 1,400 tonnes and lost pulp production of approximately 2,400 tonnes which impacted Crofton's cost by \$1.1 million.

### **Sale of Interest in PRSC Limited Partnership and PRSC Land Development Ltd.**

On August 29, 2014, we completed the sale of our interest in PRSC Limited Partnership and PRSC Land Development Ltd., including the repayment of the mortgage receivable, to the Tla'amin First Nation and City of Powell

River for proceeds of \$3.0 million. The PRSC Limited Partnership was a unique joint venture that was established by the three parties in 2006 to sell and redevelop lands that were surplus to Catalyst's operations in the community. The sale transaction was approved by the courts in 2012 when Catalyst was undergoing financial restructuring while under creditor protection.

### **Introduction of BC Hydro Power Smart Program**

On July 24, 2014, the Ministry of Energy and Mines and BC Hydro introduced a new energy efficiency program aimed at reducing the power costs of mechanical pulp producers. The Power Smart program provides a funding injection of \$100 million over three years with \$45 million allocated to Catalyst Paper. The program is aimed at reducing the energy intensity and improving the energy efficiency of the thermal-mechanical pulping process at seven pulp facilities in British Columbia.

The Power Smart Program will benefit our three mills located in Crofton, Port Alberni and Powell River by providing funding for 75% of the capital investment required for equipment upgrades to more efficiently harness energy and reduce energy waste. The first project at our Powell River mill, approved by BC Hydro on December 22, 2014 with start-up expected on November 1, 2015, will utilize waste steam to reduce our electrical load on the BC Hydro system. The project has an expected capital cost in excess of \$25 million of which Power Smart funding covers 75% and will reduce annual energy cost by an estimated \$5 million. As of December 31, 2014, we spent \$6.1 million on this project and received reimbursement from BC Hydro of \$4.5 million.

### **Settlement Agreement entered into with PACE Industry Union-Management Pension Fund**

The company entered into a settlement agreement dated July 18, 2014, with the PACE Industry Union-Management Pension Fund (PIUMPF), a multi-employer pension plan which we contributed to on behalf of hourly employees at the Snowflake mill. Catalyst will, in accordance with the settlement agreement, remit three lump sum payments of US\$1.0 million each, with the first payment made on July 28, 2014 and the two subsequent payments to be made on or before May 1, 2015 and May 1, 2016, respectively. In addition, we will continue to remit monthly installments of US\$0.1 million in accordance with a confirmed payment schedule. In 2012, a withdrawal liability of US\$11.7 million was recognized as a result of the closure of the Snowflake mill.

### **Changes to Board of Directors**

On July 8, 2014, Pierre A. Raymond was appointed to the Board of Directors.

### **Completion of Term Loan and Redemption of Floating Rate Senior Secured Notes**

On March 20, 2014, the company entered into a \$20.0 million term loan (Term Loan) that matures on July 31, 2017 and bears interest, payable monthly, at the Canadian Prime Rate plus 3% per year. The Term Loan provides for quarterly principal repayments of \$0.5 million and can be prepaid in whole or in part at any time without premium. The Term Loan was provided by the same lenders who participate in our asset based loan facility (ABL Facility) and is secured by a senior charge on the assets of the company and its subsidiaries that secures the 2017 Notes.

The proceeds of the Term Loan were used to redeem the US\$19.4 million outstanding balance on the Floating Rate Senior Secured Notes due 2016 (Floating Rate Notes). The effective settlement date of the redemption of the Floating Rate Notes was April 19, 2014. The replacement of the Floating Rate Notes with the Term Loan resulted in a net reduction to our outstanding secured debt of approximately US\$1.4 million and a reduction in annual interest cost of approximately US\$1.4 million.

### **Reduction of Secured Debt**

We repurchased for cancellation an aggregate principal amount of US\$14.5 million of our outstanding 2017 Notes on the open market, thereby reducing our annual interest costs by approximately US\$1.6 million. The debt was repurchased in two tranches, US\$9.5 million with an effective settlement date of March 27, 2014, and US\$5.0 million with an effective settlement date of April 1, 2014.

### **Unsuccessful Appeal of Sales Tax Ruling**

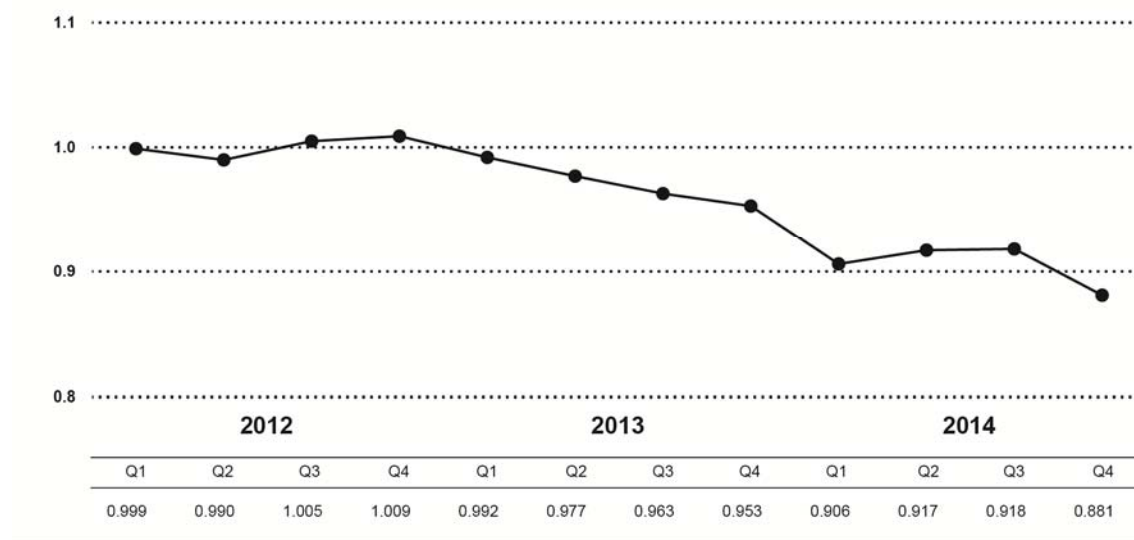
On February 4, 2015, the BC Court of Appeal overturned the January 28, 2014 Supreme Court of British Columbia ruling in favour of Catalyst Paper in our action against the Province of British Columbia involving a reassessment of

the amount of sales tax payable under the Social Services Tax Act on electricity purchased from Powell River Energy Inc. in 2001 through 2010. We are evaluating next steps including the possible submission of a motion for leave to appeal the decision with the Supreme Court of Canada.

## Canadian Dollar

The chart below illustrates the movement of the US\$/CDN\$ average spot rate over the past three years:

### US\$ / CDN\$ Foreign Exchange Rates (Average Spot Rate)



### US\$/CDN\$ Exchange

|                        | 2012  |       |       |       | 2013  |       |       |       | 2014         |              |              |              |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|--------------|--------------|
|                        | Q1    | Q2    | Q3    | Q4    | Q1    | Q2    | Q3    | Q4    | Q1           | Q2           | Q3           | Q4           |
| Average spot rate      | 0.999 | 0.990 | 1.005 | 1.009 | 0.992 | 0.977 | 0.963 | 0.953 | <b>0.906</b> | <b>0.917</b> | <b>0.918</b> | <b>0.881</b> |
| Average effective rate | 0.999 | 0.990 | 1.005 | 1.009 | 0.992 | 0.977 | 0.963 | 0.953 | <b>0.906</b> | <b>0.917</b> | <b>0.918</b> | <b>0.881</b> |
| Period-end spot rate   | 1.001 | 0.981 | 1.017 | 1.005 | 0.985 | 0.951 | 0.972 | 0.940 | <b>0.905</b> | <b>0.937</b> | <b>0.892</b> | <b>0.862</b> |

The majority of our sales are denominated in U.S. dollars. The Canadian dollar weakened in 2014 and traded below par against the U.S. dollar. There was no difference between our average effective exchange rate and the average spot rate in 2014. The US\$/CDN\$ exchange rate movement in 2014 compared to 2013 resulted in a positive variance of \$66.3 million on revenue and a positive variance of \$49.0 million on adjusted EBITDA. Year-end spot rate movement resulted in an after-tax foreign exchange loss of \$24.1 million on the translation of U.S. dollar denominated debt in 2014, compared to an after-tax foreign exchange loss of \$18.8 million in 2013. We have a program in place to hedge a portion of our anticipated U.S. dollar sales, although, effective April 1, 2010, we no longer designate the positions as hedges for accounting purposes. At December 31, 2014 we had foreign currency options and forward contracts with a notional principal of US\$105.0 million with major financial institutions. Refer to our annual consolidated financial statements for the year ended December 31, 2014 note 26, *Financial instruments*, for additional details.

## CONSOLIDATED RESULTS - ANNUAL

### CONSOLIDATED RESULTS OF OPERATIONS

#### YEAR ENDED DECEMBER 31, 2014 COMPARED TO YEAR ENDED DECEMBER 31, 2013

##### Sales

Sales increased by \$57.9 million in 2014 due to the positive impact of a weaker Canadian dollar, increased sales volumes for newsprint, LWC and pulp, and higher average transaction prices for pulp, partially offset by reduced sales volumes for directory and uncoated, and lower average transaction prices for all paper grades.

##### Adjusted EBITDA and Adjusted EBITDA before Restructuring Costs

The following table provides variances between periods for adjusted EBITDA and adjusted EBITDA before restructuring costs:

| (In millions of dollars)                                             | Adjusted<br>EBITDA <sup>1,2</sup> | Adjusted<br>EBITDA before<br>restructuring costs <sup>1,2</sup> |
|----------------------------------------------------------------------|-----------------------------------|-----------------------------------------------------------------|
| <b>2013</b>                                                          | <b>\$ 46.1</b>                    | <b>\$ 47.3</b>                                                  |
| Paper prices                                                         | (24.9)                            | (24.9)                                                          |
| Pulp prices                                                          | 14.9                              | 14.9                                                            |
| Impact of Canadian dollar                                            | 49.0                              | 49.0                                                            |
| Volume and mix                                                       | 9.9                               | 9.9                                                             |
| Distribution costs                                                   | (3.3)                             | (3.3)                                                           |
| Furnish mix and costs                                                | (21.5)                            | (21.5)                                                          |
| Chemical costs                                                       | (4.1)                             | (4.1)                                                           |
| Power and fuel costs                                                 | (10.6)                            | (10.6)                                                          |
| Labour costs                                                         | (4.5)                             | (4.5)                                                           |
| Maintenance costs                                                    | 5.1                               | 5.1                                                             |
| Lower of cost or market impact on inventory, net of inventory change | (1.7)                             | (1.7)                                                           |
| Restructuring costs                                                  | 0.7                               | -                                                               |
| De-recognition of interest in Powell River Energy                    | (4.3)                             | (4.3)                                                           |
| Selling, general and administrative <sup>3</sup>                     | 0.4                               | 0.4                                                             |
| Power generation                                                     | (0.7)                             | (0.7)                                                           |
| Other, net                                                           | (2.9)                             | (2.9)                                                           |
| <b>2014</b>                                                          | <b>\$ 47.6</b>                    | <b>\$ 48.1</b>                                                  |

1 Refer to *Non-GAAP measures*, for further details.

2 Numbers exclude the Snowflake mill's results which have been reclassified as discontinued operations in the consolidated statements of earnings (loss) in the annual consolidated financial statements for the year ended December 31, 2014.

3 Selling, general and administrative expense included acquisition fees of \$3.1 million in 2014 related to the acquisition of the US mills.

##### Operating Earnings (Loss)

Operating earnings increased by \$74.3 million due to an impairment charge in the prior year of \$86.9 million, reduced depreciation of \$2.4 million and higher adjusted EBITDA of \$1.5 million, partially offset by an impairment charge in the current year of \$16.5 million.

##### Net Earnings (loss) Attributable to the Company

Net loss attributable to the company decreased by \$55.3 million. Net loss for the current year of \$72.3 million included an after-tax operating loss of \$13.6 million, an after-tax foreign exchange loss on the translation of U.S. dollar debt of \$24.1 million, after-tax interest expense of \$35.8 million, an after-tax settlement loss on the PIUMPF pension liability of \$1.2 million and an after-tax loss on the settlement of debt of \$1.0 million, partially offset by an after-tax gain on the sale of the PRSC interest and related mortgage of \$2.1 million. Net loss for the prior year of \$127.6 million included an after-tax operating loss of \$87.8 million, an after-tax foreign exchange loss on the translation of U.S. dollar debt of \$18.8 million, and after-tax interest expense of \$37.5 million, partially offset by an after-tax settlement gain of \$2.6 million related to the special pension portability election, and a net gain after tax on

the sale of non-core assets including the Snowflake mill, our interest in Powell River Energy, the Elk Falls site and two parcels of poplar land of \$12.3 million.

The following table reconciles 2014 net earnings (loss) attributable to the company to 2013:

| (In millions of dollars)                                               | Pre-tax           | After-tax         |
|------------------------------------------------------------------------|-------------------|-------------------|
| <b>2013 net loss attributable to the company</b>                       | <b>\$ (127.5)</b> | <b>\$ (127.6)</b> |
| Higher adjusted EBITDA before restructuring costs                      | 0.8               | 0.7               |
| Lower restructuring costs                                              | 0.7               | 0.7               |
| Lower depreciation and amortization expense                            | 2.4               | 2.4               |
| Lower impairment charge                                                | 70.4              | 70.4              |
| Change in foreign exchange gain (loss) on long-term debt               | (5.3)             | (5.3)             |
| Change in reorganization items, net                                    | 1.2               | 1.2               |
| Lower other income, net                                                | (13.7)            | (13.7)            |
| Lower interest expense                                                 | 1.9               | 1.7               |
| Change in discontinued operations earnings (loss)                      | (3.1)             | (3.1)             |
| Change in net earnings (loss) attributable to non-controlling interest | 0.3               | 0.3               |
| <b>2014 net loss attributable to the company</b>                       | <b>\$ (71.9)</b>  | <b>\$ (72.3)</b>  |

## SEGMENTED RESULTS - ANNUAL

### Specialty Printing Papers

| (In millions of dollars, except where otherwise stated) | 2014            | 2013     | 2012 <sup>2</sup> |
|---------------------------------------------------------|-----------------|----------|-------------------|
| Sales                                                   | <b>\$ 606.7</b> | \$ 635.1 | \$ 675.6          |
| Operating earnings (loss)                               | <b>(50.9)</b>   | (102.3)  | 20.5              |
| Depreciation and amortization                           | <b>34.9</b>     | 40.4     | 30.1              |
| Adjusted EBITDA <sup>1</sup>                            | <b>0.5</b>      | 25.0     | 50.6              |
| – before restructuring costs <sup>1</sup>               | <b>1.0</b>      | 25.6     | 53.5              |
| Adjusted EBITDA margin <sup>1</sup>                     | <b>0.1%</b>     | 3.9%     | 7.5%              |
| – before restructuring costs <sup>1</sup>               | <b>0.2%</b>     | 4.0%     | 7.9%              |
| (In thousands of tonnes)                                |                 |          |                   |
| Sales                                                   | <b>701.9</b>    | 762.0    | 812.6             |
| Production                                              | <b>708.1</b>    | 770.9    | 805.5             |

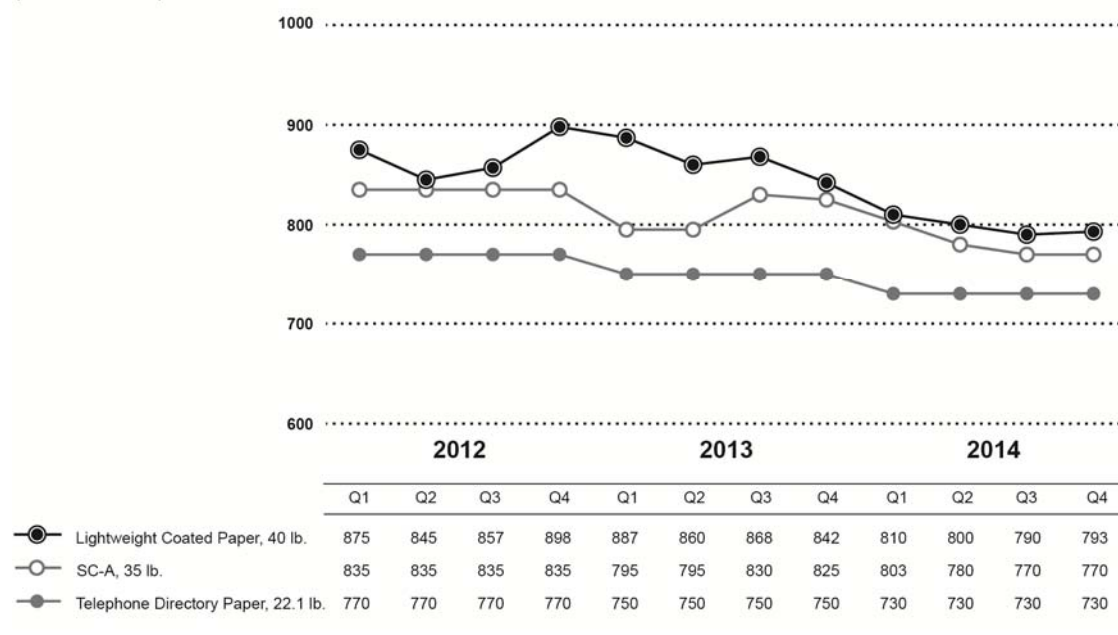
<sup>1</sup> Refer to *Non-GAAP measures*.

<sup>2</sup> Numbers exclude the Snowflake mill's results from operations which have been reclassified as discontinued operations in the consolidated statements of earnings (loss) in the annual consolidated financial statements for the year ended December 31, 2014.

## Specialty Printing Papers Benchmark Price Trend

Average delivered to U.S. benchmark transaction price (US\$/short ton)

(Source: RISI)



## Segment Overview

North American demand for LWC decreased 4.9% for the year due to reduced advertising pages in magazines and a decrease in catalogues being mailed out. LWC inventories decreased in the current year partially due to capacity reduction from mill closures. Weakness in North American specialty markets resulted in the average benchmark price for LWC declining to US\$798 per short ton from US\$864 per short ton in 2013. North American uncoated mechanical demand (high-gloss and standard grades) decreased 3.1% and inventories increased compared to 2013. The indefinite curtailment of Powell River No. 9 paper machine resulted in reduced production of approximately 19,200 tonnes of uncoated mechanical paper.

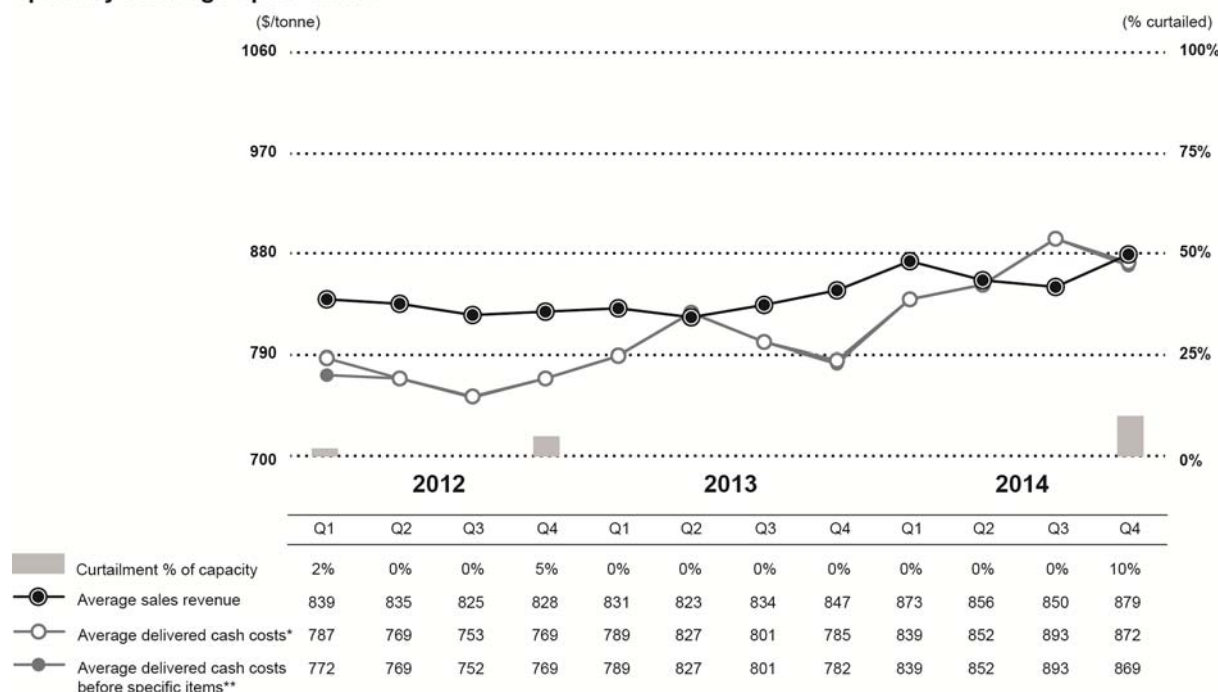
Average benchmark prices for super-calendered A grade (SC-A) declined 3.7% to US\$781 per short ton compared to the prior year. We announced price increases for LWC of US\$20 per short ton on Pacificote, Electrocoate and Electracote Brite, effective November 1, 2014, and for SC-A of US\$40 per short ton on Electracal and Electraprime, effective December 1, 2014.

North American directory demand decreased 19.3% in 2014 from the prior year due to reduced publication of white pages, smaller book sizes, lower circulation, and the continued migration from printed directory books to the Internet. At US\$730 per short ton, the average directory benchmark price for the current year decreased by 2.7% compared to the prior year. The majority of our directory pricing was largely fixed for the year based on 2014 contract pricing.

## Operational Performance

The following chart summarizes the operating performance of our specialty printing papers segment:

### Specialty Printing Papers Trend

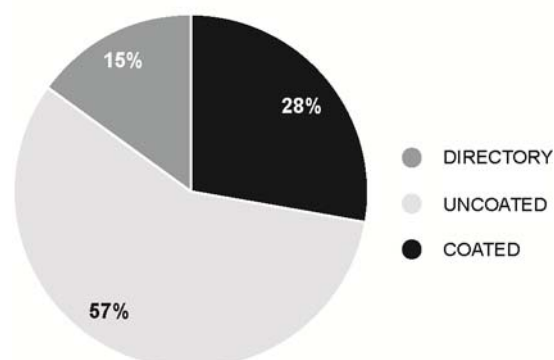


\* Average delivered cash costs per tonne consist of cost of sales, excluding depreciation and amortization, and including the impact of SG&A and restructuring costs. Average delivered cash costs per tonne before specific items consist of cost of sales, excluding depreciation and amortization, and including the impact of SG&A, but excluding the impact of restructuring costs.

\*\* The indefinite curtailment of Powell River No. 9 paper machine reduced production volumes of uncoated mechanical paper by approximately 19,200 tonnes in Q4 2014.

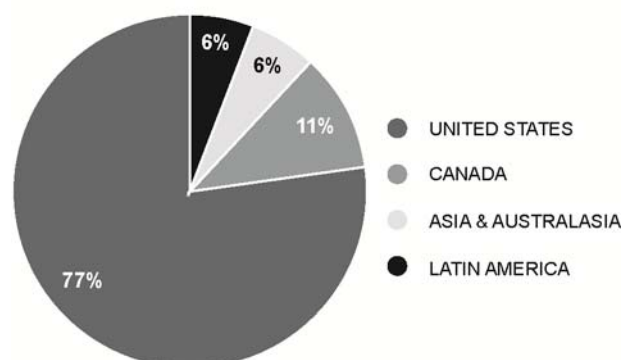
The 2014 specialty printing papers product-grade distribution, based on sales volume, is depicted in the chart below:

### Product Sales Distribution (% tonnes)



The 2014 specialty printing papers geographic sales distribution, based on sales volume, is depicted in the chart below:

### Geographic Sales Distribution (% tonnes)



- Sales volume decreased by 60,100 tonnes reflecting lower sales volumes for directory and uncoated mechanical, partially offset by higher sales volumes for LWC. Declining directory sales were converted to newsprint while uncoated paper sales declined mostly due to weakening demand and the indefinite curtailment of the Powell River No. 9 paper machine in the fourth quarter.
- Average sales revenue per tonne increased \$31 per tonne due to the positive impact of a weaker Canadian dollar, partially offset by lower average transaction prices for all specialty grades.
- Average delivered cash costs increased \$63 per tonne mostly due to increased cost of fibre, kraft, coating, chemicals, distribution, electric power and steam fuel. Fibre costs increased due to higher pulp pricing, the strong US dollar drove the cost of coating, chemicals and distribution higher, and electric power costs reflect a 9% hydroelectricity rate increase effective April 1, 2014. The inclusion in 2013 results of PREI's operating earnings generated from power sales up to the sale of our interest on March 20, 2013 also contributed to the increase in average delivered cash costs.

## Newsprint

| (In millions of dollars, except where otherwise stated) |    | 2014  | 2013     | 2012 <sup>2</sup> |
|---------------------------------------------------------|----|-------|----------|-------------------|
| Sales                                                   | \$ | 237.9 | \$ 192.3 | \$ 178.1          |
| Operating earnings (loss)                               |    | (0.6) | 8.4      | 14.1              |
| Depreciation and amortization                           |    | 7.3   | 5.1      | 4.1               |
| Adjusted EBITDA <sup>1</sup>                            |    | 6.7   | 13.5     | 18.2              |
| - before restructuring costs <sup>1</sup>               |    | 6.7   | 13.9     | 19.0              |
| Adjusted EBITDA margin <sup>1</sup>                     |    | 2.8%  | 7.0%     | 10.2%             |
| - before restructuring costs <sup>1</sup>               |    | 2.8%  | 7.2%     | 10.7%             |
| (In thousands of tonnes)                                |    |       |          |                   |
| Sales                                                   |    | 347.4 | 283.3    | 264.0             |
| Production                                              |    | 351.8 | 288.5    | 265.1             |

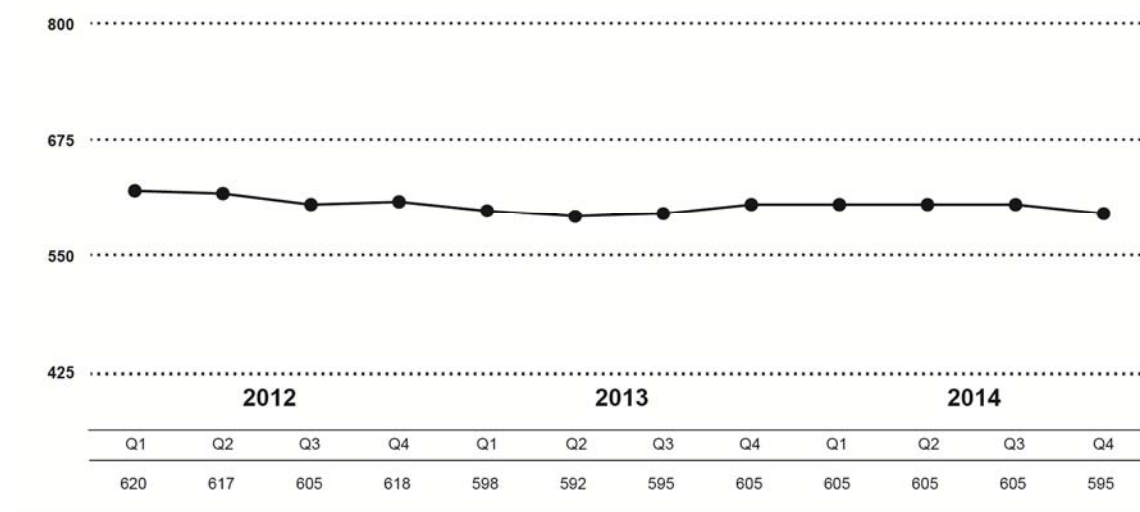
1 Refer to *Non-GAAP measures*.

2 Numbers exclude the Snowflake mill's results from operations which have been reclassified as discontinued operations in the consolidated statements of earnings (loss) in the annual consolidated financial statements for the year ended December 31, 2014.

## Standard Newsprint Price Trend

Average delivered to U.S. West Coast benchmark transaction price (US\$/tonne)

(Source: RISI)



## Segment Overview

North American newsprint shipments were down by 9.0% in 2014 mostly due to lower newspaper print advertising and declining circulation. Increased exports in the year, especially to Asia, partly compensated for weak domestic demand. Newsprint inventories rose for the year compared to 2013 levels.

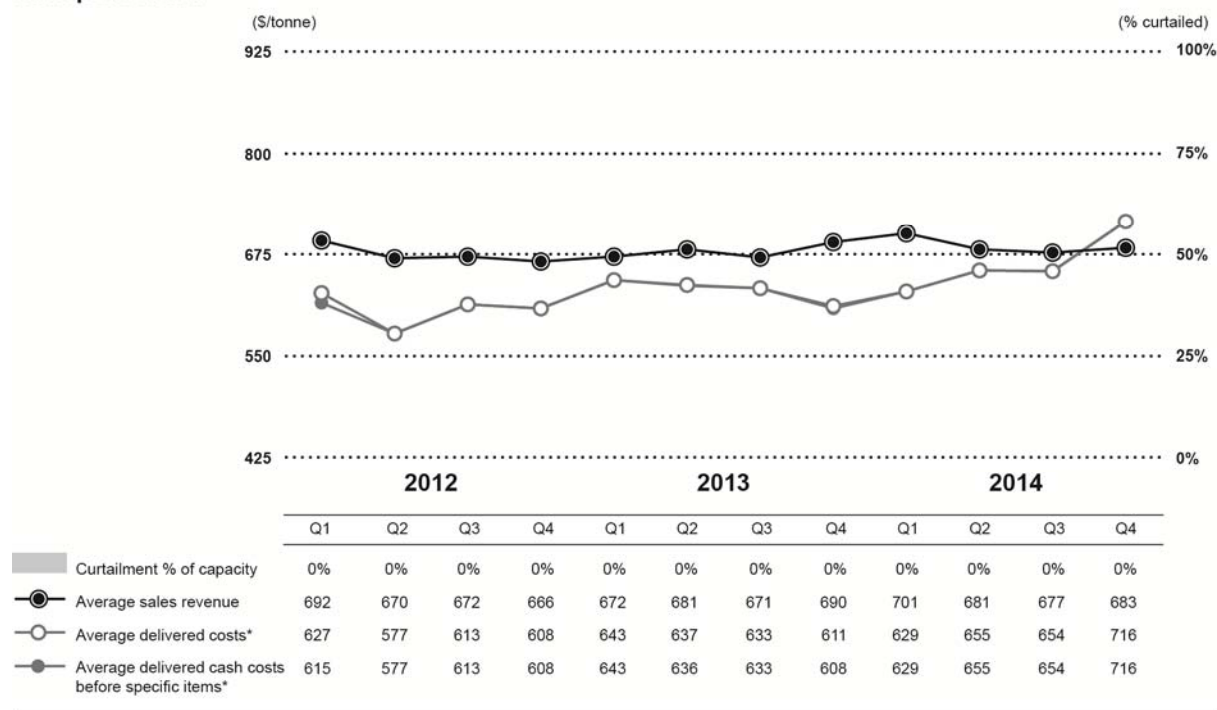
The average North American newsprint benchmark price increased 0.8% to US\$603 per metric tonne compared to the previous year.

The Crofton No. 1 paper machine, originally curtailed in January 2010, remained indefinitely curtailed throughout 2014, resulting in 140,000 tonnes of curtailment on an annualized basis.

## Operational Performance

The following chart summarizes the operating performance of our newsprint segment:

### Newsprint Trend

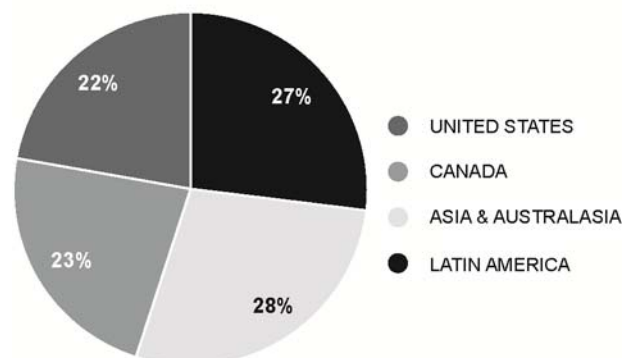


\* Average delivered cash costs per tonne consist of cost of sales, excluding depreciation and amortization, and including the impact of SG&A and restructuring costs. Average delivered cash costs per tonne before specific items consist of cost of sales, excluding depreciation and amortization, and including the impact of SG&A, but excluding the impact of restructuring costs.

The 2014 newsprint geographic sales distribution, based on sales volume, is depicted in the chart below:

### Geographic Sales Distribution

(% tonnes)



- Sales volume increased by 64,100 tonnes primarily due to increased newsprint production which partly offset lower directory production.

- Average sales revenue increased \$6 per tonne due to the positive impact of a weaker Canadian dollar, partially offset by lower average transaction prices.
- Average delivered cash costs increased \$35 per tonne mostly due to increased distribution, fibre, chemicals, electric power and labour costs, partly offset by the favourable cost impact of increased production in the year.

## Pulp

| (In millions of dollars, except where otherwise stated) | 2014     | 2013     | 2012 <sup>2</sup> |
|---------------------------------------------------------|----------|----------|-------------------|
| Sales                                                   | \$ 264.7 | \$ 224.0 | \$ 204.5          |
| Operating earnings (loss)                               | 38.0     | 6.1      | (15.5)            |
| Depreciation and amortization                           | 2.4      | 1.5      | 2.1               |
| Adjusted EBITDA <sup>1</sup>                            | 40.4     | 7.6      | (13.4)            |
| – before restructuring costs <sup>1</sup>               | 40.4     | 7.8      | (11.8)            |
| Adjusted EBITDA margin <sup>1</sup>                     | 15.3%    | 3.4%     | (6.6%)            |
| – before restructuring costs <sup>1</sup>               | 15.3%    | 3.5%     | (5.8%)            |
| (In thousands of tonnes)                                |          |          |                   |
| Sales                                                   | 340.0    | 328.0    | 324.8             |
| Production                                              | 343.6    | 323.2    | 318.0             |

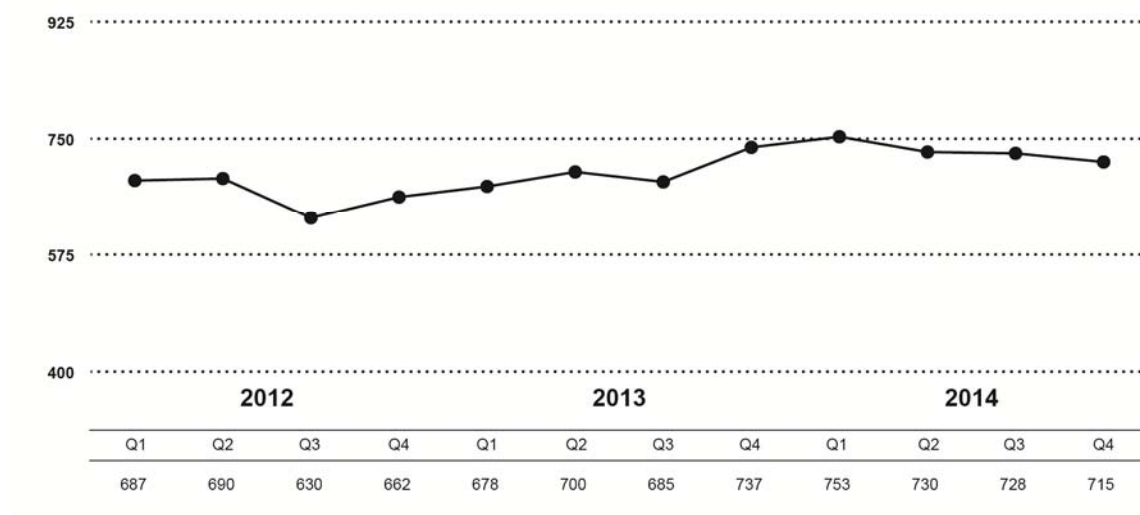
1 Refer to *Non-GAAP measures*.

2 Numbers exclude the Snowflake mill's results from operations which have been reclassified as discontinued operations in the consolidated statements of earnings (loss) in the annual consolidated financial statements for the year ended December 31, 2014.

## Northern Bleached Softwood Kraft Price Trend

Average delivered to China benchmark transaction price (US\$/tonne)

(Source: RISI)



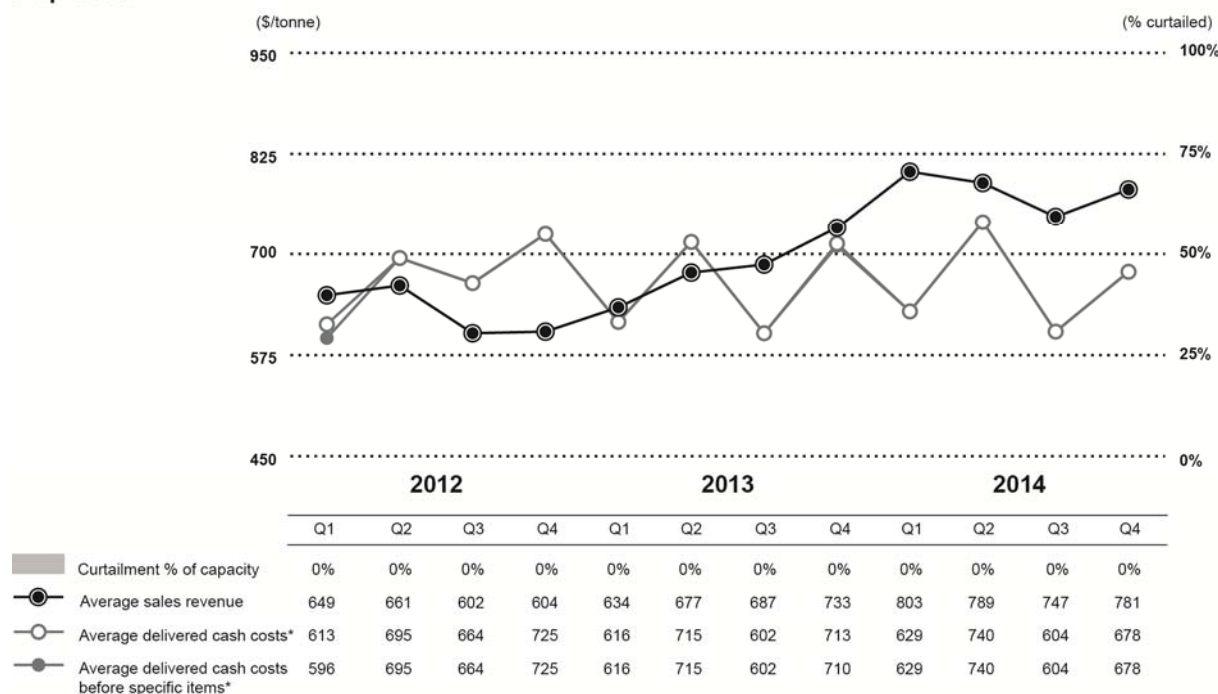
## Segment Overview

Global shipments of NBSK pulp decreased by 2.8% in 2014 compared to prior year shipments due to weaker demand in China. The average NBSK benchmark price for China increased by 4.6% to US\$733 per tonne compared to the prior year reflecting the impact of price increases implemented in 2014 that were announced in the fourth quarter of 2013.

## Operational Performance

The following chart summarizes the operating performance of our pulp segment:

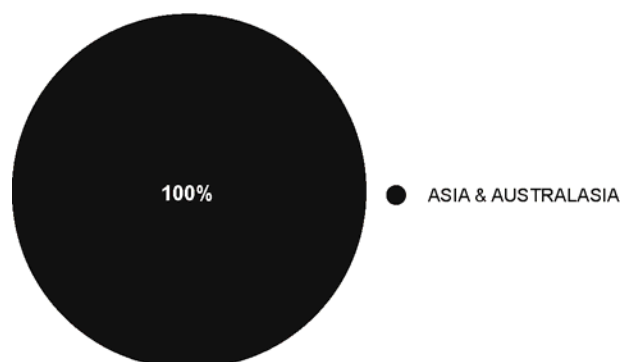
### Pulp Trend



\* Average delivered cash costs per tonne consist of cost of sales, excluding depreciation and amortization, and including the impact of SG&A and restructuring costs. Average delivered cash costs per tonne before specific items consist of cost of sales, excluding depreciation and amortization, and including the impact of SG&A, but excluding the impact of restructuring costs.

The primary market for our market pulp is Asia. The 2014 pulp geographic sales distribution, based on sales volume, is depicted in the chart below:

### Geographic Sales Distribution (% tonnes)



- Sales volume increased by 12,000 tonnes reflecting improved productivity of the Crofton pulp mill mostly due to two debottlenecking initiatives that were completed in the second quarter.
- Average sales revenue increased by \$96 per tonne due to higher average transaction prices and the positive impact of a weaker Canadian dollar.

- Average delivered cash costs remained flat due to increased fibre costs that were offset by improved productivity in the year.

## FINANCIAL CONDITION

The following table highlights the significant changes between the consolidated balance sheets as at December 31, 2014 and December 31, 2013:

| (In millions of dollars)      | 2014     | 2013     | Variance | Comments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-------------------------------|----------|----------|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Working capital               | \$ 144.6 | \$ 153.6 | \$ (9.0) | Decrease reflects a \$5.6 million decrease to accounts receivable, a \$1.2 million decrease to cash and cash equivalents and a \$17.6 million increase in accounts payable and accrued liabilities, partially offset by a \$15.3 million increase to inventories and a \$0.1 million increase to prepaids. Accounts payable and accrued liabilities increased due to an increase in trade payables while inventories increased due to an increase in finished goods paper inventories in the year. |
| Assets held for sale          | 1.5      | 5.7      | (4.2)    | Decrease due to the sale of poplar land and our interest in a mortgage receivable from PRSC Limited Partnership and interest in PRSC Land Development Ltd. Remaining assets held for sale consist of poplar land.                                                                                                                                                                                                                                                                                  |
| Property, plant and equipment | 379.3    | 412.2    | (32.9)   | Decrease mainly due to impairment of Powell River No. 9 paper machine subsequent to the machine's indefinite curtailment, and the impact of depreciation exceeding capital spending for the year.                                                                                                                                                                                                                                                                                                  |
| Other assets                  | 6.0      | 8.9      | (2.9)    | Decrease mainly due the reclassification of capital in progress to property, plant and equipment, and the impairment of capital in progress related to the Powell River No. 9 paper machine subsequent to the machine's indefinite curtailment.                                                                                                                                                                                                                                                    |
| Total debt                    | 329.1    | 303.8    | 25.3     | Increase due to the impact of the weak Canadian dollar on the translation of U.S. dollar denominated debt and new capital leases entered into related to mobile equipment, partially offset by the repurchase of 2017 Notes and quarterly repayments on the Term Loan.                                                                                                                                                                                                                             |
| Employee future benefits      | 282.4    | 254.9    | 27.5     | Increase reflects a net actuarial loss recognized on the company's defined benefit pension plans and other post-employment benefit plans reflecting a lower discount rate on projected liabilities, a lower expected investment return on plan assets and an adverse change to mortality assumptions.                                                                                                                                                                                              |
| Other long-term obligations   | 15.5     | 8.8      | 6.7      | Increase mostly due to the reclassification of a portion of the PIUMPF pension liability from current to non-current liabilities after a settlement agreement had been reached.                                                                                                                                                                                                                                                                                                                    |

## OUTLOOK

### ECONOMY

The United States is expected to continue leading global economic growth in 2015. The strengthening U.S. economy and six-month decline in the crude oil price have resulted in a weakening Canadian dollar, and we expect this trend to continue in the first half of 2015. Volatility of the Canadian dollar may significantly impact our operating and net earnings, cash flow and liquidity.

### MARKETS

North American paper markets are expected to remain challenging in 2015 with the continued migration to electronic media. We expect an uptick in price and demand for coated and soft calendered uncoated paper in the North American market place in 2015 due in part to recently announced capacity reductions that support tightening operating rates. Tightening operating rates should benefit our expanded suite of coated products, including our coated mechanical, freesheet and specialty product grades. We announced a US\$40 per short ton increase to our coated paper grades, effective April 1, 2015.

Demand for directory paper will continue to decline due to paper conservation moves by publishers and migration to electronic media. Our directory sales are mostly under contract, and therefore, we do not expect pricing and demand to fluctuate significantly through the first half of 2015.

Newsprint demand in 2015 is expected to contract further due to declining circulation, page count reductions, conservation measures by publishers, and continued migration of information and advertising to the Internet. Newsprint prices for the remainder of the year will depend on the supply and demand balance. We anticipate downward pressure on export pricing for newsprint in 2015 due to global competition for market share.

For NBSK pulp, China's weakening demand and tight monetary policy are expected to put downward pressure on pulp pricing in the first half of 2015.

The US West Coast Ports have been experiencing significant congestion since the summer which was further exacerbated by independent actions taken by the Pacific Maritime Association (PMA) and the International Longshore and Warehouse Union (ILWU) during contract talks which further slowed down port operations. On February 20, 2015 the PMA and ILWU reached a tentative contract deal to end the dispute. These slowdowns resulted in delayed shipments to our South American customers and a significant build-up of inventory. While the work slowdown is officially over, it will take several months for all backlogs to clear and Catalyst will continue to implement contingency plans to keep customers supplied with paper. Asian customers were not impacted by this action as we have direct calls from Vancouver to Asia with no USA port calls.

## **OPERATIONS AND CAPITAL SPENDING**

Price pressure for key inputs is expected to be marginal with the exception of higher incremental fibre pricing for both our Canadian and U.S. operations, and power costs for our B.C. operations that will be unfavourably impacted by an announced energy cost rate increase of 6%, effective April 1, 2015. The lower oil price is expected to have a deflationary impact on our coating and freight costs in 2015.

Manufacturing costs in 2015 will reflect the addition of the U.S. paper mills and approximately 907,000 tonnes of additional production capacity. As these mills are located in the United States, our U.S. dollar exposure will increase significantly for both sales and costs. The acquisition increases the geographic diversification of our asset base and reduces the concentration risk of being reliant on a limited number of fibre, power and chemical suppliers. Our corporate costs will increase in 2015 and beyond as we add human and technological resources related to managing these mills and integrating their operating and information systems with our Canadian operations, although it is anticipated that corporate costs as a percentage of production capacity will be lower due to expected synergies from the acquisition. We estimate that total transition costs related to the US paper mills will be in the range of US\$9.0 to US\$12.0 million in 2015, excluding capital spending related to the separation and licencing of information systems.

We will continue to pursue benefits under the BC Hydro Power Smart Program, with the first project at our Powell River mill scheduled for completion in the fourth quarter of 2015. In addition to the Power Smart Program, we have commenced a pilot load curtailment program at our three Canadian mills. The load curtailment program is an arrangement with BC Hydro whereby we curtail the power consumption at our mills on receipt of 24-hour prior notice in exchange for a monetary benefit. These initiatives will help partly mitigate the impact of the power rate increases announced in 2013 as part of the B.C government's 10 year electricity plan. We will continue our discussions with key stakeholders on a suite of additional potential initiatives to further mitigate the impact of energy rate escalation.

We will continue to identify and drive operational improvements through our OFI program and are rolling the program out to the newly acquired U.S. mills. In 2015, we will pursue a number of synergistic opportunities identified as part of the acquisition of the U.S. mills, including freight optimization of customer sales and improved profitability through product mix optimization by increasing our coated freesheet market share.

Our maintenance plan for 2015 includes a total mill outage at our Crofton mill scheduled for September, our regular outages related to power and recovery boilers, and a major maintenance shut at the Rumford mill in May to replace the generating bank of the recovery boiler. We expect to continue paper production at the Rumford mill during this maintenance outage.

The following table summarizes major planned maintenance shutdown costs and related production downtime for 2015:

| Mill Location      | 2015              |                        |                   |                        |                   |                        |                   |                        |                   |                        |
|--------------------|-------------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|------------------------|
|                    | Q1                |                        | Q2                |                        | Q3                |                        | Q4                |                        | Total             |                        |
|                    | Tonnage<br>Impact | Mtce<br>Cost<br>(\$mm) | Tonnage<br>Impact | Mtce<br>Cost<br>(\$mm) | Tonnage<br>Impact | Mtce<br>Cost<br>(\$mm) | Tonnage<br>Impact | Mtce<br>Cost<br>(\$mm) | Tonnage<br>Impact | Mtce<br>Cost<br>(\$mm) |
| <b>Alberni</b>     |                   |                        |                   |                        |                   |                        |                   |                        |                   |                        |
| Other <sup>1</sup> | —                 | —                      | —                 | 0.3                    | —                 | 1.9                    | —                 | —                      | —                 | 2.2                    |
| Capital            | —                 | —                      | 1,800             | —                      | —                 | —                      | —                 | —                      | 1,800             | —                      |
| Boilers            | —                 | —                      | —                 | 0.2                    | —                 | 1.5                    | —                 | —                      | —                 | 1.7                    |
| <b>Crofton</b>     |                   |                        |                   |                        |                   |                        |                   |                        |                   |                        |
| TMO                | —                 | —                      | —                 | —                      | 2,600             | 2.8                    | —                 | —                      | 2,600             | 2.8                    |
| Capital            | —                 | —                      | —                 | —                      | 3,200             | —                      | —                 | —                      | 3,200             | —                      |
| Pulp               | 8,000             | 6.2                    | —                 | —                      | 8,200             | 6.4                    | —                 | —                      | 16,200            | 12.6                   |
| Boilers            | —                 | —                      | —                 | —                      | —                 | 0.2                    | —                 | 0.3                    | —                 | 0.5                    |
| <b>Powell</b>      |                   |                        |                   |                        |                   |                        |                   |                        |                   |                        |
| Boilers            | —                 | 0.4                    | —                 | 3.0                    | —                 | —                      | —                 | —                      | —                 | 3.4                    |
| <b>Biron</b>       |                   |                        |                   |                        |                   |                        |                   |                        |                   |                        |
| Capital            | 3,200             | 0.4                    | —                 | —                      | —                 | —                      | —                 | —                      | 3,200             | 0.4                    |
| Boilers            | —                 | —                      | —                 | —                      | —                 | 1.3                    | —                 | —                      | —                 | 1.3                    |
| <b>Rumford</b>     |                   |                        |                   |                        |                   |                        |                   |                        |                   |                        |
| Pulp               | —                 | —                      | 10,500            | 4.8                    | —                 | —                      | —                 | —                      | 10,500            | 4.8                    |
| Boilers            | —                 | —                      | —                 | 2.0                    | —                 | 3.3                    | —                 | 0.1                    | —                 | 5.4                    |
| <b>Total</b>       | <b>11,200</b>     | <b>7.0</b>             | <b>12,300</b>     | <b>10.3</b>            | <b>14,000</b>     | <b>17.4</b>            | <b>—</b>          | <b>0.4</b>             | <b>37,500</b>     | <b>35.1</b>            |

1 Includes maintenance in 2nd quarter on precipitator and maintenance in 3rd quarter on steam turbine generator.

The Powell River No. 9 machine and Crofton No. 1 machine will continue to be indefinitely curtailed in 2015. We are in the advanced stages of a revitalization consultation process related to the Powell River mill to evaluate all aspects of mill operations, systems, and staffing. We expect that the implementation of recommendations resulting from this process will have a significant impact on the future costs and profitability of the Powell River mill.

Capital spending related to both our Canadian and U.S. operations is expected not to exceed \$40 million and will be managed to balance cash flow.

The company will continue to hedge a portion of its U.S. dollar denominated sales in accordance with its policy to manage currency risk.

Manufacturing costs in Q1, 2015 will reflect an eleven day outage on the Crofton mill's recovery boiler and batch digester that will have an anticipated cost of \$6.2 million and a production impact of approximately 8,000 tonnes, and a capital outage at the Biron mill that will have an anticipated cost of \$0.4 million and a production impact of 3,200 tonnes.

We expect that earnings and cash flow for the first half of 2015 will be negatively impacted by higher capital spending, the delay in fully eliminating costs related to Powell River No. 9 paper machine, and transition and separation costs related to the integration of the U.S. mills. A significant uptick in performance is expected in the second half of the year as we shed transition costs and we begin to capture the benefits of synergies and other operational improvements identified for the U.S. mills.

## LIQUIDITY, DEBT MATURITIES AND COVENANTS

We do not currently anticipate any significant uses of cash in 2015 other than for our operations, working capital fluctuations, interest payments, Term Loan repayments and pension funding related to our Canadian and US pension plans including our multi-employer pension plans. We expect that our operations will require significant liquidity in 2015 related to the transition, integration and system separation of our newly acquired US paper mills, the Rumford recovery boiler rebuild, and the timing delay in eliminating all costs directly and indirectly related to the indefinite

curtailment of the Powell River No. 9 paper machine. Based on liquidity currently at our disposal, we believe that we will be able to fund these requirements.

## NON-GAAP MEASURES

Management uses certain measures that are not defined by U.S. GAAP to evaluate our performance and, as a result, the measures as employed by management may not be comparable to similarly titled measures reported by other entities. These non-GAAP measures should not be considered by an investor as an alternative to their nearest respective GAAP measure. Our non-GAAP measures include operating earnings (loss), adjusted EBITDA (earnings before interest, taxes, depreciation and amortization, impairment and other closure costs, and before other non-operating income and expenses), adjusted EBITDA before restructuring costs, adjusted EBITDA margin, adjusted EBITDA margin before restructuring costs, average delivered cash costs per tonne before specific items, net earnings (loss) attributable to the company before specific items, net earnings (loss) per share attributable to the company's common shareholders before specific items, and free cash flow.

Specific items are items that do not arise from the company's day-to-day operating, investing and financing activities, or items that are subject to material volatility based on factors outside of management's control. Specific items include: foreign exchange gain or loss on long-term debt, gain or loss on cancellation of long-term debt, asset impairment and other closure costs, restructuring costs, unusual non-recurring items, and certain income tax adjustments.

### Adjusted EBITDA and Adjusted EBITDA before Restructuring Costs

Adjusted EBITDA as defined equates to operating earnings (loss) plus depreciation and amortization and impairment and other closure costs. Adjusted EBITDA margin and adjusted EBITDA margin before restructuring costs are defined as adjusted EBITDA and adjusted EBITDA before restructuring costs as a percentage of sales.

These measures enable comparison of consolidated and segment operating results between periods without regard to debt service, income taxes, capital expenditure requirements, and specific items. These measures are provided to improve comparability between periods by eliminating the impact of financing (interest) and accounting (depreciation) items on our results.

### *Reconciliation of net earnings (loss) attributable to the company by year*

| (In millions of dollars)                                     | 2014      | 2013       | 2012     |
|--------------------------------------------------------------|-----------|------------|----------|
| Net earnings (loss) attributable to the company as reported  | \$ (72.3) | \$ (127.6) | \$ 583.2 |
| Net earnings (loss) attributable to non-controlling interest | —         | 0.3        | 30.4     |
| Net earnings (loss)                                          | (72.3)    | (127.3)    | 613.6    |
| Depreciation and amortization <sup>1</sup>                   | 44.6      | 47.0       | 36.3     |
| Impairment                                                   | 16.5      | 86.9       | —        |
| Foreign exchange (gain) loss on long-term debt <sup>1</sup>  | 24.1      | 18.8       | (20.8)   |
| Other (income) expense, net <sup>1</sup>                     | (1.2)     | (14.9)     | 2.5      |
| Interest expense, net <sup>1</sup>                           | 35.5      | 37.4       | 71.9     |
| Income tax (recovery) expense <sup>1</sup>                   | 0.4       | 0.1        | (0.9)    |
| Reorganization items, net <sup>1</sup>                       | —         | 1.2        | (663.7)  |
| (Earnings) loss from discontinued operations net of tax      | —         | (3.1)      | 16.5     |
| Adjusted EBITDA                                              | \$ 47.6   | \$ 46.1    | \$ 55.4  |
| Restructuring costs                                          | 0.5       | 1.2        | 5.3      |
| Adjusted EBITDA before restructuring costs                   | \$ 48.1   | \$ 47.3    | \$ 60.7  |

<sup>1</sup> Numbers exclude the Snowflake mill's results from operations which have been reclassified as discontinued operations in the consolidated statements of earnings (loss) in the annual consolidated financial statements for the year ended December 31, 2014.

### Net Earnings (Loss) Attributable to the Company before Specific Items

Specific items are defined previously, and the exclusion of such items from net earnings (loss) attributable to the company facilitates the comparison of financial results between periods.

#### *Reconciliation to Net Earnings (Loss) Attributable to the Company by year:*

| (In millions of dollars and after-taxes, except where otherwise stated)                     | 2014      | 2013       | 2012      |
|---------------------------------------------------------------------------------------------|-----------|------------|-----------|
| Net earnings (loss) attributable to the company as reported                                 | \$ (72.3) | \$ (127.6) | \$ 583.2  |
| Specific items:                                                                             |           |            |           |
| Foreign exchange (gain) loss on long-term debt                                              | 24.1      | 18.8       | (20.8)    |
| Settlement loss on PIUMPF pension liability                                                 | 1.2       | —          | —         |
| Settlement gain on special pension portability election                                     | —         | (2.6)      | —         |
| Impairment and other closure costs <sup>1</sup>                                             | 16.5      | 87.1       | 19.7      |
| Acquisition costs related to US paper mills                                                 | 3.1       | —          | —         |
| Restructuring and change-of-control costs <sup>1</sup>                                      | 0.5       | 1.6        | 6.4       |
| Reorganization items, net <sup>1</sup>                                                      | —         | 1.1        | (667.5)   |
| Loss (gain) on settlement of debt                                                           | 1.0       | 2.3        | —         |
| Net gain on sale of non-core assets                                                         | (2.4)     | (12.2)     | —         |
| Fair market adjustment to non-controlling interest                                          | —         | —          | 41.2      |
| Net earnings (loss) attributable to the company before specific items                       | \$ (28.3) | \$ (31.5)  | \$ (37.8) |
| Net earnings (loss) per share attributable to the company's common shareholders in dollars: |           |            |           |
| As reported (continuing operations)                                                         | \$ (4.99) | \$ (9.01)  | \$ 1.65   |
| Before specific items                                                                       | (1.95)    | (2.17)     | (2.62)    |

1 Includes amount related to Snowflake which was included in discontinued operations, net of tax in the consolidated statements of earnings (loss) in the annual consolidated financial statements for the year ended December 31, 2014.

### Free Cash Flow

Free cash flow excludes working capital and certain other sources and uses of cash, which are disclosed in the consolidated statements of cash flows. This measure allows us to assess our ability to generate funds to repay debt and assists in cash flow forecasting.

#### *Reconciliation to Cash Provided by Operating Activities less Cash Used by Investing Activities by year:*

| (In millions of dollars)                                                 | 2014      | 2013      | 2012      |
|--------------------------------------------------------------------------|-----------|-----------|-----------|
| Cash provided (used) by operating activities                             | \$ 21.3   | \$ (7.5)  | \$ 8.1    |
| Cash used by investing activities                                        | (19.2)    | 31.4      | (9.6)     |
| Proceeds from the sale of property, plant and equipment and other assets | (4.7)     | (52.2)    | (12.3)    |
| Other investing activities                                               | 2.0       | 0.5       | (3.7)     |
| Non-cash working capital changes except changes in taxes and interest    | (15.9)    | 8.6       | (31.8)    |
| Other                                                                    | (0.7)     | (2.2)     | 2.1       |
| Free cash flow                                                           | \$ (17.2) | \$ (21.4) | \$ (47.2) |

#### *Management's Calculation of Free Cash Flow by Year:*

| (In millions of dollars)                                                       | 2014      | 2013      | 2012      |
|--------------------------------------------------------------------------------|-----------|-----------|-----------|
| Adjusted EBITDA                                                                | \$ 47.6   | \$ 46.1   | \$ 55.4   |
| Interest expense, excluding amortization                                       | (34.1)    | (35.5)    | (22.7)    |
| Capital expenditures                                                           | (21.9)    | (23.4)    | (22.6)    |
| Reorganization costs                                                           | —         | (0.6)     | (37.5)    |
| Income taxes paid                                                              | —         | —         | 0.2       |
| Employee future benefits, expense over (under) cash contributions <sup>1</sup> | (8.8)     | (7.0)     | (11.8)    |
| Net operating cash flow from discontinued operations                           | —         | (1.0)     | (8.2)     |
| Free cash flow                                                                 | \$ (17.2) | \$ (21.4) | \$ (47.2) |

1 Free cash flow is adjusted to reflect the cash impact of employee future benefits rather than the accounting expense which is included in adjusted EBITDA.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires companies to establish accounting policies and to make estimates that affect both the amount and timing of recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

Note 2, *Summary of significant accounting policies*, in the December 31, 2014 consolidated financial statements includes a summary of the significant accounting policies used in their preparation. While all of the significant accounting policies are important to the annual consolidated financial statements, some of these policies may be viewed as involving a high degree of judgment. On an ongoing basis using currently available information, management reviews its estimates, including those related to environmental and legal liabilities, impairment of long-lived assets, pension and post-retirement benefits, provision for bad and doubtful accounts, fair value measurement, and income taxes. Actual results could differ from these estimates.

The following accounting policies require management's most difficult, subjective and complex judgments, and are subject to measurement uncertainty.

### Environmental and legal liabilities

Environmental and legal liabilities are recorded when it is considered probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Liabilities for environmental matters require evaluation of applicable environmental regulations and estimates of remediation alternatives and the costs thereof. Provisions for liabilities relating to legal actions and claims require judgments about projected outcomes and the range of loss, based on such factors as historical experience and recommendations of legal counsel.

As at December 31, 2014 we had a provision of \$16.9 million for environmental, remedial and other obligations. We expect capital expenditures relating to known environmental matters, including compliance issues and the assessment and remediation of the environmental condition of the company's properties, will total approximately \$0.6 million in 2015.

### Impairment of long-lived assets

We review other long-lived assets, primarily plant and equipment, for impairment when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We test for impairment using a two-step methodology as follows:

- (i) Determine whether the projected undiscounted future cash flows from operations exceed the net carrying amount of the assets as of the assessment date; and
- (ii) If assets are determined to be impaired in step (i), then such impaired assets are written down to their fair value, determined principally by using discounted future cash flows expected from their use and eventual disposition.

Estimates of future cash flows and fair value require judgments, assumptions and estimates and may change over time. Due to the variables associated with judgments and assumptions used in these tests, the precision and accuracy of estimates of impairment charges are subject to significant uncertainties and may change significantly as additional information becomes known. The carrying values of long-lived assets represented approximately 56.7% of total assets as at December 31, 2014. If future developments were to differ adversely from management's best estimate of key assumptions and associated cash flows, we could potentially experience future material impairment charges.

In December 2014, the company announced that its Powell River No.9 paper machine would be indefinitely curtailed due to a lack of demand and declining market for paper manufactured on this machine. The company recognized an impairment charge of \$13.0 million on property, plant and equipment, \$1.6 million on other assets and \$1.9 million on related operating and maintenance supplies and spare parts inventory.

In addition to the indefinite curtailment of the No. 9 paper machine, declines in current and forecasted paper prices that may negatively impact future operating costs and profitability were identified as indicators of potential impairment of long-lived assets at December 31, 2014. Four asset groups were identified for the purpose of the impairment analysis: Crofton paper, Crofton pulp, Powell River and Port Alberni. Assets and related liabilities were

grouped by mill in accordance with the enterprise valuation established for fresh start accounting on September 30, 2012 for which independent cash flows were identified for each mill. Crofton pulp group was excluded from the impairment analysis given that the indicators do not reflect that the carrying value of assets used for pulp production may not be recoverable.

The company conducted step (i) of the impairment test to determine whether the carrying value of its long-lived assets were recoverable. All the asset groups passed the recoverability test, and therefore, no additional impairment of the carrying value of property, plant and equipment was recorded as of December 31, 2014.

See note 6, *Measurement uncertainty – impairment of long-lived assets* in our consolidated financial statements for the year ended December 31, 2014 for a description of inputs and assumptions used.

### **Assets held for sale and discontinued operations**

Assets and liabilities that meet the held-for-sale criteria are reported separately from continuing operations in the consolidated balance sheet. Assets held for sale and liabilities associated with assets held for sale are reported separately under current assets and current liabilities and are not offset and reported as a single amount in the consolidated balance sheet. Assets and liabilities are classified prospectively in the consolidated balance sheet as held for sale. Assets classified as held for sale on December 31, 2014 included poplar plantation land.

The results of discontinued operations, net of tax, are presented separately from the results of continuing operations in the consolidated statements of earnings (loss). Per share information and changes to other comprehensive income (loss) related to discontinued operations are presented separately from continuing operations. Cash flows from discontinued operations are not presented separately from cash flows from continuing operations in the consolidated statements of cash flows. All comparative periods are restated in the period that a component is classified as a discontinued operation. The discontinued Snowflake mill met the definition of a discontinued operation before its disposal on January 30, 2013.

### **Pension and post-retirement benefits**

We maintain various employee future benefit plans, which include defined benefit pension and post-retirement benefit plans. The company retains independent actuarial firms to perform actuarial valuations of the fair value of our defined benefit pension and post-retirement benefit plan assets and benefit obligations, and to advise on the amounts to be recorded in our financial statements. This information is determined using certain assumptions, based on historical and market data that have a direct impact on the fair value of the assets and obligations and on the charges disclosed in our financial statements. These assumptions include:

- The discount rate, which is used to estimate the actuarial present value of the various plan obligations. The company, assisted by independent actuarial advisors, sets the discount rate assumption annually to reflect the rates available on high-quality debt instruments, with cash flows that are expected to match the timing and amount of expected benefit payments. As at December 31, 2014 a discount rate of 3.8% per year was determined by us in consultation with our independent actuarial advisors.
- The long-term return on assets used to estimate the growth in the value of invested assets available to satisfy certain obligations. The company, with the assistance of independent actuarial firms, sets the expected rate of return on plan assets annually to reflect the current view of long-term investment returns. For 2014, a rate of return of 6.3% per year was determined by management in consultation with our independent actuarial advisors.
- Salary increases used to estimate the impact that future compensation increases would have on pension and other post-retirement obligations. As at December 31, 2014 a rate of compensation increase of 1.0% per year was determined by management in consultation with our independent actuarial advisors.
- Health care trend rates and mortality rates used to estimate the impact that future health care costs would have on pension and post-retirement obligations. As at December 31, 2014 a health care trend rate of 5.5% per year was determined by management in consultation with our independent actuarial advisors. The health care trend rate is assumed to decline by 0.5% per year annually, until it reaches the ultimate health care trend rate assumption of 4.5% per year.

Actual experience can vary significantly from estimates and could have a material impact on the estimated cost of employee benefit plans and future cash requirements.

The following table provides a sensitivity analysis of the assumed overall health care cost trend rate used in measuring the net pension benefit obligation, and the net obligation for other employee future benefits and related net periodic benefit cost for 2014. This sensitivity analysis should be used with caution as it is hypothetical and changes in the health care cost trend rate may not be linear.

|                                        | Pension benefit plans  |                  | Other benefit plans    |                  |
|----------------------------------------|------------------------|------------------|------------------------|------------------|
|                                        | Net benefit obligation | Net 2014 expense | Net benefit obligation | Net 2014 Expense |
| <i>(In millions of dollars)</i>        |                        |                  |                        |                  |
| Assumed overall health care cost trend |                        |                  |                        |                  |
| Impact of:                             |                        |                  |                        |                  |
| 1% increase                            | N/A                    | N/A              | 22.3                   | 1.2              |
| 1% decrease                            | N/A                    | N/A              | (19.0)                 | (1.0)            |

#### Provision for bad debts and allowance for doubtful accounts

We regularly review the collectability of our accounts receivable. We record our allowance for doubtful accounts based on our best estimate of any potentially uncollectible accounts by highlighting those that are specifically high risk and applying judgment to arrive at an estimate. Consideration is given to current economic conditions and specific customer circumstances to determine the amount of any bad debt expense to be recorded. Accounts receivable balances for individual customers could potentially be material at any given time. We manage our credit risk principally through credit policies, which include the analysis of the financial position of our customers and the regular review of their credit limits and payment terms. We also subscribe to credit insurance for a majority of our receivables, periodically purchase accounts receivable puts on certain customers, and obtain bank letters of credit for some export markets and customers. Our estimate of the required allowance is a matter of judgment and the actual loss eventually sustained may be more or less than estimated.

As at December 31, 2014 accounts receivable comprised 16.6% of total assets. Included in this balance was a provision of \$2.3 million for doubtful accounts, or 2.1% of accounts receivable (as at December 31, 2013 - \$1.8 million for doubtful accounts, or 1.5% of accounts receivable). We believe our allowance for doubtful accounts as at December 31, 2014 is adequate to provide for probable losses existing in accounts receivable.

#### Fair value measurement

We measure our derivative and non-derivative financial instruments at fair value, defined as the price that would be received from selling an asset or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value measurements, we consider the principal or most advantageous market in which it would transact and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of non-performance.

An established fair value hierarchy requires the company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is both available and significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, such as quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and are supported by little or no market activity and that are significant to the fair value determination of the assets or liabilities.

The determination of fair value requires judgments, assumptions and estimates and may change over time.

As at December 31, 2014, we had currency or commodity contracts related to our US dollar denominated sales, commodity swap agreements to fix the sales price of NBSK pulp, and commodity options to fix the sales price of natural gas. These contracts are reported at their fair value, as detailed above under the heading *Financial Instruments*.

## Income taxes

The amounts recorded for deferred income tax assets and liabilities are based on various judgments, assumptions and estimates. Deferred tax assets and liabilities are measured using enacted tax rates for the years in which assets and liabilities are expected to be recovered or settled. A projection of taxable income and estimates of the ultimate recovery or settlement of temporary differences are made for these years. The projection of future taxable income is based on management's best estimate and may vary from actual.

At December 31, 2014 the company provided a full valuation allowance against its deferred tax assets. As a result, no net deferred tax asset was recorded. A one-percentage-point change in our reported effective income tax rate would have minimal effect on our income tax expense or recovery.

In addition, we record provisions for federal, provincial and foreign taxes based on the respective tax laws of the jurisdictions in which we operate and on our judgment as to the appropriate allocation of income and deductions to these jurisdictions. Canadian, U.S. and international tax laws are subject to interpretation and our judgment may be challenged by taxation authorities. In such circumstances, the final resolution can result in settlements that differ from our estimated amounts.

## CHANGES IN ACCOUNTING POLICIES

There were no new pronouncements or recent amendments issued by the Financial Accounting Standards Board (FASB) to the Accounting Standards Codification that materially impacted our consolidated financial statements or disclosures in 2014.

## IMPACT OF ACCOUNTING PRONOUNCEMENTS AFFECTING FUTURE PERIODS

In May 2014, FASB issued a new standard on revenue recognition, ASC Topic 606 *Revenue from Contracts with Customers*. The company intends to adopt the new standard in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the new standard has not yet been determined.

There were no other new pronouncements issued by the FASB that may materially impact the company's consolidated financial statements for future periods.

## B. LIQUIDITY AND CAPITAL RESOURCES

### Selected annual financial information

| (In millions of dollars, except where otherwise stated)                             | 2014   | 2013   | 2012      |
|-------------------------------------------------------------------------------------|--------|--------|-----------|
| Cash flows provided (used) by operations before changes in non-cash working capital | \$ 5.3 | \$ 7.3 | \$ (32.0) |
| Changes in non-cash working capital                                                 | 16.0   | (14.8) | 40.1      |
| Cash flows provided (used) by:                                                      |        |        |           |
| Operations                                                                          | 21.3   | (7.5)  | 8.1       |
| Investing activities                                                                | (19.2) | 31.4   | (9.6)     |
| Financing activities                                                                | (3.3)  | (30.3) | (5.1)     |
| Capital spending                                                                    | 21.9   | 23.4   | 22.6      |
| Depreciation and amortization                                                       | 44.6   | 47.0   | 36.3      |
| Impairment and other closure costs                                                  | 16.5   | 86.9   | 11.5      |
| Capital spending as % of depreciation and amortization                              | 49%    | 50%    | 62%       |
| Net debt to net capitalization at period-end <sup>1</sup>                           | 143%   | 96%    | 78%       |

1 Net debt ratio equals net debt (total debt less cash) divided by net capitalization (shareholders' equity attributable to the company and total debt less cash).

## Selected quarterly financial information

| (In millions of dollars, except where otherwise stated)                             | 2014   |          |          |          |         | 2013   |         |        |          |          |
|-------------------------------------------------------------------------------------|--------|----------|----------|----------|---------|--------|---------|--------|----------|----------|
|                                                                                     | Total  | Q4       | Q3       | Q2       | Q1      | Total  | Q4      | Q3     | Q2       | Q1       |
| Cash flows provided (used) by operations before changes in non-cash working capital | \$ 5.3 | \$ (2.9) | \$ (2.5) | \$ (5.7) | \$ 16.4 | \$ 7.3 | \$ 11.9 | \$ 6.1 | \$ (8.5) | \$ (2.2) |
| Changes in non-cash working capital                                                 | 16.0   | 6.2      | (6.3)    | 8.8      | 7.3     | (14.8) | (8.2)   | (19.1) | 11.5     | 1.0      |
| Cash flows provided (used) by:                                                      |        |          |          |          |         |        |         |        |          |          |
| Operations                                                                          | 21.3   | 3.3      | (8.8)    | 3.1      | 23.7    | (7.5)  | 3.7     | (13.0) | 3.0      | (1.2)    |
| Investing activities                                                                | (19.2) | (9.1)    | (1.9)    | 17.6     | (25.8)  | 31.4   | (4.0)   | (0.7)  | 19.7     | 16.4     |
| Financing activities                                                                | (3.3)  | 7.6      | 11.6     | (22.4)   | (0.1)   | (30.3) | (1.4)   | 11.5   | (20.8)   | (19.6)   |
| Capital spending                                                                    | 21.9   | 8.4      | 5.7      | 4.7      | 3.1     | 23.4   | 3.7     | 5.3    | 8.5      | 5.9      |
| Depreciation and amortization                                                       | 44.6   | 11.5     | 11.2     | 11.0     | 10.9    | 47.0   | 11.7    | 11.5   | 11.4     | 12.4     |
| Impairment                                                                          | 16.5   | 16.5     | —        | —        | —       | 86.9   | 86.9    | —      | —        | —        |
| Capital spending as % of depreciation and amortization                              | 49%    | 73%      | 51%      | 43%      | 28%     | 50%    | 32%     | 46%    | 75%      | 48%      |
| Net debt to net capitalization at period-end <sup>1</sup>                           | 143%   | 143%     | 107%     | 99%      | 97%     | 96%    | 96%     | 74%    | 78%      | 73%      |

<sup>1</sup> Net debt ratio equals net debt (total debt less cash) divided by net capitalization (shareholders' equity attributable to the company and total debt less cash).

Our principal cash requirements are for ongoing operating costs, working capital fluctuations, and capital expenditures as well as interest and principal payments on debt. We anticipate that future operating cash requirements can be funded through internally generated cash flows from operations and advances under our ABL Facility. Additional details are provided in "Capital resources" and in "Debt" below.

## Operating activities

Cash flows from operating activities increased \$28.8 million compared to 2013 due to a favourable change in non-cash working capital. The positive change in non-cash working capital reflects an increase in trade accounts payable due in part to improved credit terms and lower trade accounts receivable due in part to reduced average collection days, partially offset by an increase in paper inventories.

## Investing activities

Cash used for investing activities was \$19.2 million compared to \$31.4 million cash provided for the previous year. Investing activities for the current year consisted mostly of capital additions of \$21.9 million, while prior year results included proceeds from the sale of non-core assets of \$51.4 million, partially offset by capital additions of \$23.4 million.

While total capital additions in 2014 were lower than 2013 levels, our investment in profit adding capital increased. The components are provided below:

| (In millions of dollars) | 2014    | 2013    |
|--------------------------|---------|---------|
| Safety                   | \$ 1.7  | \$ 1.9  |
| Environment              | 1.0     | 2.2     |
| Maintenance of business  | 14.1    | 16.0    |
| Profit adding            | 5.1     | 3.3     |
| Total                    | \$ 21.9 | \$ 23.4 |

## Financing activities

Cash used by financing activities in 2014 decreased by \$27.0 million compared to 2013. Financing activities for the current year included the net redemption, purchase and issuance of long-term debt of \$17.8 million and the payment of financing costs of \$2.1 million, partially offset by a net draw of \$18.8 million on the ABL Facility. Financing activities for the prior year included the purchase of Floating Rate Notes for \$15.8 million and a net repayment on the ABL Facility of \$13.4 million.

## Capital resources

Our capital resources include cash on hand and availability on our ABL Facility, with total liquidity at period-end summarized in the following table.

| (In millions of dollars)           | ABL Facility<br>2014 |          |          |          | ABL Facility<br>2013 |          |          |          |
|------------------------------------|----------------------|----------|----------|----------|----------------------|----------|----------|----------|
|                                    | Q4                   | Q3       | Q2       | Q1       | Q4                   | Q3       | Q2       | Q1       |
| Borrowing base <sup>1</sup>        | \$ 139.6             | \$ 139.9 | \$ 141.3 | \$ 148.2 | \$ 140.4             | \$ 145.8 | \$ 138.7 | \$ 133.5 |
| Letters of credit                  | (18.4)               | (18.6)   | (18.5)   | (18.6)   | (19.3)               | (19.8)   | (19.8)   | (22.1)   |
| Amount drawn, net                  | (29.4)               | (20.0)   | (7.8)    | (1.3)    | (10.6)               | (11.8)   | —        | (4.7)    |
| Available to be drawn <sup>2</sup> | 91.8                 | 101.3    | 115.0    | 128.3    | 110.5                | 114.2    | 118.9    | 106.7    |
| Cash on hand                       | 10.9                 | 9.1      | 8.2      | 9.9      | 12.1                 | 13.8     | 16.0     | 14.1     |
| Restricted cash                    | —                    | —        | —        | 22.5     | —                    | —        | —        | 20.0     |
| Total liquidity                    | \$ 102.7             | \$ 110.4 | \$ 123.2 | \$ 160.7 | \$ 122.6             | \$ 128.0 | \$ 134.9 | \$ 140.8 |

1 The borrowing base at December 31, 2014 includes a reserve of \$1.5 million for pension, \$2.0 million for creditor insurance deductibles, \$2.5 million for landlord waivers, \$1.6 million for employee source deductions, \$0.4 million related to WorkSafeBC, and \$1.0 million for mark-to-market exposure on our foreign currency revenue hedges.

2 Our ABL Facility is subject to certain financial covenants as disclosed in our annual consolidated financial statements for the year ended December 31, 2014 in note 15, *Long-term debt*.

Our total liquidity decreased by \$19.9 million from the prior year reflecting negative free cash flow of \$16.0 million generated for the year. The decrease in liquidity reflects an increase to the amount drawn on our ABL Facility and a decrease in cash on hand. Liquidity for the quarter declined by \$7.7 million partly due to acquisition costs related to the US paper mills and the production impact of the fatality at Crofton and the indefinite curtailment of the Powell River No. 9 paper machine. The decision to curtail the paper machine has a temporary negative impact on liquidity due to the typical delay in fully eliminating all costs directly and indirectly related to operating the machine.

For information related to the computation of our borrowing base and availability on the ABL Facility, refer to our annual consolidated financial statements for the year ended December 31, 2014 note 15, *Long-term debt*.

At March 3, 2015 we had 14,527,571 common shares issued and outstanding. The company's common shares have no par value and an unlimited number of shares are authorized for future issuance.

## DEBT

Our long-term debt increased in 2014 due to the foreign exchange impact of a weaker Canadian dollar, partially offset by a net decrease from debt refinancing and purchases. The following table illustrates the changes in our long-term debt for the year ended December 31, 2014:

## Issue

| (In millions of dollars)                                                                                   | January 1,<br>2014 | Net increase<br>(decrease) | Foreign<br>exchange | December 31,<br>2014 |
|------------------------------------------------------------------------------------------------------------|--------------------|----------------------------|---------------------|----------------------|
| Term loan, due July 2017                                                                                   | —                  | 18.5                       | —                   | 18.5                 |
| Floating rate senior secured notes, due September 2016<br>(December 31, 2013 - US\$19.4 million)           | \$ 20.2            | \$ (20.9)                  | \$ 0.7              | \$ —                 |
| Senior secured notes, 11.0% due October 2017 (US\$235.5<br>million; December 31, 2013 – US\$250.0 million) | 265.9              | (16.2)                     | 23.4                | 273.1                |
| Revolving asset-based loan facility of up to \$175.0 million due<br>July 2017                              | 10.6               | 18.8                       | —                   | 29.4                 |
| Capital lease obligations                                                                                  | 7.1                | 1.0                        | —                   | 8.1                  |
| Total debt                                                                                                 | \$ 303.8           | \$ 1.2                     | \$ 24.1             | \$ 329.1             |
| Less: current portion                                                                                      | 2.0                | 1.0                        | —                   | 3.0                  |
| Total long-term debt                                                                                       | \$ 301.8           | \$ 0.2                     | \$ 24.1             | \$ 326.1             |

On January 7, 2015, the company amended the asset based loan facility (ABL Facility) to increase the maximum amount of credit available thereunder from \$175.0 million to \$225.0 million to finance the acquisition of the Biron paper mill and the Rumford pulp and paper mill. The company also completed an offering of US\$25.0 million of PIK

Toggle Senior Secured Notes ("Offered Notes") due 2017. The Offered Notes were issued at a 20% discount to face value with the company receiving gross proceeds of US\$20.0 million to be used to finance part of the costs associated with the acquisition.

In September 2014, the company entered into five capital leases on equipment. On June 27, 2014, we allowed the lease on three barges to terminate and exercised the option to purchase the assets.

On March 27, 2014, we purchased US\$9.5 million of our 2017 Notes for cash consideration of \$10.0 million that included \$0.5 million of interest expense. On April 1, 2014, we purchased US\$5.0 million of 2017 Notes for cash consideration of \$5.2 million that included \$0.3 million of interest expense.

On March 20, 2014, we secured a \$20.0 million Term Loan that matures on July 31, 2017. The Term Loan bears interest, payable monthly at the Canadian Prime Rate plus 3%. The Term Loan provides for principal repayments of \$0.5 million each quarter and can be prepaid in whole or in part at any time without premium. On April 19, 2014, we used the proceeds from the Term Loan to redeem the remaining US\$19.4 million Floating Rate Notes due 2016 for cash consideration of \$22.4 million, including \$0.6 million in interest expense.

See Note 15, *Long-term debt*, in our annual consolidated financial statements for the year ended December 31, 2014 for additional information on changes to our debt.

## **Financial Instruments**

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, long-term debt, and derivatives. Derivatives are used primarily to reduce exposure to currency risk on revenues, or occasionally debt, as well as price risk associated with revenue and energy costs. In accordance with our financial risk management program, we manage our exposure to risks through the use of financial instruments with counterparties that are of strong credit quality, normally being major financial institutions. We do not enter into financial instruments for speculative purposes.

At December 31, 2014 we had foreign currency options and forward contracts with a notional principal of US\$105.0 million with major financial institutions. At the period-end exchange rate, these instruments were reported at their fair value of negative \$2.0 million. At December 31, 2014, commodity swap agreements with a negligible fair value were outstanding to fix the sales price of 500 metric tonnes of NBSK pulp within the next seven months. At December 31, 2014, commodity options were outstanding to fix the sales price of 180,000 Gigajoules of natural gas within the next five months. These contracts were reported at their fair value which was \$nil at December 31, 2014.

For a description of the nature and extent of risk to the company from our financial instruments, as well as our respective accounting treatment of financial instruments, refer to our annual consolidated financial statements for the year ended December 31, 2014 note 26, *Financial instruments*. For the methods and assumptions we use to determine the fair value of financial instruments, refer to note 25, *Fair value measurement*, of those statements.

## **C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES, ETC.**

Research required to meet our specific needs is conducted at private laboratories under the direction of our technical experts and at the mill laboratories. Business unit technical staff provide scientific and technological expertise in support of operations and product development efforts. Our internal product development team carried out the bulk of our product development efforts in the last three years. We did not make significant research and development expenditures to outside contractors in the last three years.

## **D. TREND INFORMATION**

See information provided in Item 5A.

## E. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table presents the aggregate amount of future cash outflows for contractual obligations as of December 31, 2014:

| <i>(In millions of dollars)</i>                  | 2015    | 2016    | 2017     | 2018   | 2019   |
|--------------------------------------------------|---------|---------|----------|--------|--------|
| Total debt, excluding capital lease obligations  | \$ 2.0  | \$ 2.0  | \$ 346.1 | \$ –   | \$ –   |
| Capital lease obligations                        | 1.0     | 1.1     | 2.9      | 2.6    | 0.4    |
| Operating leases <sup>2</sup>                    | 35.0    | 7.1     | 3.2      | 2.1    | 0.4    |
| Interest payments on long-term debt <sup>1</sup> | 31.5    | 31.3    | 30.8     | –      | –      |
| Total                                            | \$ 69.5 | \$ 41.5 | \$ 383.0 | \$ 4.7 | \$ 0.8 |

1 Based on 11% cash interest on the 2017 Notes and drawings on the ABL facility as at December 31, 2014.

2 Subsequent to the sale of the company's interest in Powell River Energy on March 20, 2013, the power purchase agreement between the company and Powell River Energy meets the definition of an operating lease under U.S.GAAP.

## ITEM 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. DIRECTORS AND SENIOR MANAGEMENT

#### *Directors*

Our directors are as indicated in the following table. Each director indicated below will serve as a director of the company until the annual meeting of the Shareholders of the company in 2015 or until his successor is elected or appointed, or unless his office is earlier vacated under any of the relevant provisions of our by-laws or the *Canada Business Corporations Act*.

| <i>Name and Municipality of Residence</i>        | <i>Age</i> | <i>Director Occupation</i>                                                                                                                                                                    | <i>Director Since</i> |
|--------------------------------------------------|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| John Brecker<br>New York, New York               | 51         | Director of Bowery Management and a Principal of Drivetrain Advisors. Previously, Co-founder and Partner of Longacre Fund Management, LLC.                                                    | September 13, 2012    |
| Todd Dillabough<br>Calgary, Alberta              | 53         | Director of Trident Resources Corporation. Previously a Director of Aveos Fleet Performance Inc. and CEO and COO with Trident Resources Corporation and Pioneer Natural Resources Canada Inc. | September 13, 2012    |
| Walter Jones<br>Denver, CO                       | 61         | Retired Managing Director of CoMetrics Partners LLC. and Partner at J.H. Cohn LLP.                                                                                                            | September 13, 2012    |
| Leslie Lederer <sup>1</sup><br>Chicago, Illinois | 66         | Attorney in Private Practice. Previously a consultant.                                                                                                                                        | September 13, 2012    |
| Jill Leversage<br>Vancouver, British Columbia    | 58         | Managing Director of Highland West Capital. Previously Managing Director, TD Securities.                                                                                                      | June 24, 2013         |
| Joe Nemeth<br>Langley, British Columbia          | 50         | President and Chief Executive Officer, Catalyst Paper Corporation. Previously President and Chief Executive Officer, Canfor Pulp Products Inc.                                                | October 1, 2013       |
| Pierre Raymond<br>Montreal, Quebec               | 60         | Retired partner of Stikeman Elliott. Previously Chair of the firm and a member of the Partnership Board and Executive Committee.                                                              | July 8, 2014          |

1 Chair of the Board.

Messrs. Jones and Brecker and Ms. Leversage are members of the company's Audit Committee.

Messrs. Dillabough, Lederer and Raymond are members of the company's Environmental, Health and Safety Committee.

Messrs. Dillabough, Lederer and Raymond are members of the company's Governance and Human Resources and Compensation Committee.

#### *Officers*

Officers are appointed to serve at the pleasure of the Board of Directors.

| <i>Name</i>                             | <i>Age</i> | <i>Title</i>                                                                                                                                         |
|-----------------------------------------|------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| Brian Baarda <sup>1</sup><br>Surrey, BC | 48         | Vice President, Finance and Chief Financial Officer. Previously Vice President, Operations – Newsprint, ONP Procurement, Recycling.                  |
| Jim Bayles<br>Vancouver, BC             | 63         | Senior Vice President, Sales & Marketing. Previously Vice-President Newsprint/International.                                                         |
| Gerrie Kotze<br>New Westminster, BC     | 36         | Corporate Controller. Previously Director, Corporate Reporting, Risk and Insurance                                                                   |
| Len Posyniak<br>Vancouver, BC           | 59         | Senior Vice President, Human Resources & Corporate Services. Previously Executive Vice President, Human Resources with the Corix Group of Companies. |
| Joe Nemeth<br>Langley, BC               | 50         | President and Chief Executive Officer, Catalyst Paper Corporation. Previously President and Chief Executive Officer, Canfor Pulp Products Inc.       |
| Pat Sakai                               | 61         | Treasurer and Director, Taxation. Previously Director, Taxation                                                                                      |

1 Mr. Baarda resigned as CFO effective April 15, 2015.

Our directors and officers as a group beneficially own, directly or indirectly, or exercise control or direction over less than 1% of our issued and outstanding common shares.

Mr. Baarda was an officer of the company when it filed for protection under the Companies' Creditors Arrangement Act (CCAA) and subsequently implemented a plan of arrangement under the Companies' Creditors Arrangement Act.

Mr. Dillabough was the Chief Executive Officer of Trident Exploration Corp. when it filed a voluntary petition for relief under the CCAA and under Chapter 11 of the United States Bankruptcy Code in September 2009. Mr. Dillabough was a director of Aveos Fleet Performance Inc. when the company filed a voluntary petition for relief under the CCAA on March 19, 2012. Mr. Dillabough resigned from Aveos Fleet Performance Inc. immediately following the CCAA filing.

## **B. COMPENSATION**

### **COMPENSATION DISCUSSION AND ANALYSIS**

The Corporation's executive compensation strategy is based on a compensation philosophy which includes three principal components:

- (i) base salary and benefits aimed at compensating the executive for specific and general accountabilities as well as the skills, knowledge and experience brought to the job;
- (ii) short term incentives payable in cash intended to focus initiative on annual objectives and reward behaviour that achieves corporate performance targets; and
- (iii) mid and long term incentives granted partly through the issuance of equity based compensation, such as stock options, restricted share units, phantom share units and deferred share units, to encourage the enhancement of Shareholder value and partly payable in cash.

The total compensation strategy is intended to accomplish the following objectives:

- to attract executive officers who have demonstrated superior leadership and management skills;
- to retain the services of valued members of the executive team throughout the normal business cycles typical of resource-based companies;
- to link the interests of the executive officers with those of the Shareholders; and
- to motivate executive officers to achieve excellence within their respective areas of accountability.

#### ***Current Peer Group***

The Corporation believes its compensation objectives will be reached with a total compensation package which corresponds to base salaries targeted at or below the median of primary and/or secondary peer groups established by the Board. The primary peer group to which Catalyst compared its compensation is comprised of forestry and paper product companies with revenue between \$250 million and \$3 billion. These companies represent the talent market for Catalyst's executives (i.e., where we lose executives to and recruit from) and Catalyst's 2013 revenue were generally aligned with the median of the primary peer group. The following table outlines Catalyst's primary peer group:

|                             |                           |
|-----------------------------|---------------------------|
| Ainsworth Lumber Co. Ltd.   | Canfor Corporation        |
| Fortress Paper Ltd.         | Interfor Corporation      |
| Mercer International Inc.   | Norbord Inc.              |
| Stella-Jones Inc.           | Tembec Inc.               |
| West Fraser Timber Co. Ltd. | West Forest Products Inc. |

As a secondary reference, Catalyst also compares its compensation to companies in capital intensive industries such as forestry, oil and gas, utilities and mining that participate in Towers Watson's General Industry Executive Compensation Survey. The inclusion of secondary comparator companies is determined by size using annual revenue between \$600 million and \$2.5 billion.

The GHRCC reviews and benchmarks the Corporation's total compensation for its executives against the comparator peer group to ensure that Catalyst is providing competitive compensation. Actual awards paid to executives will vary based upon both individual and corporate performance as determined by the GHRCC. Under this philosophy average performance is expected to merit below average pay and superior performance is rewarded with top decile pay. Variability may exist between the 50<sup>th</sup> and 90<sup>th</sup> percentile based on the knowledge, experience and performance that the executive brings to his or her respective position.

Salaries, benefits and perquisites are generally reviewed annually and adjustments are made when appropriate.

Various sources of market data are used to ensure that executive compensation levels are aligned with competitive market trends and that the executive compensation plan remains competitive relative to total compensation packages for similar roles in the forest industry and general industry.

#### ***Base Salary, Benefits and Perquisites***

Base salary is a fixed element of compensation for each executive officer for performing his or her position's specific responsibilities and is typically determined with general reference to, among other things, base salary compensation at industry peers. Base salary is intended to fit into the Corporation's overall compensation objectives by serving to attract and retain talented executive officers. Base salaries are targeted at or below the median of primary and/or secondary peer groups established by the Board with the assistance of independent consultants. Variability may exist between the 50<sup>th</sup> and 90<sup>th</sup> percentile based on the knowledge, experience and performance that the executive brings to his or her respective position.

### **Short Term Incentive Plan**

The executive short-term incentive plan (“**STIP**”) is intended to provide variable pay based on the achievement of measurable corporate and individual performance objectives. Each executive position has a target STIP award value that is expressed as a percentage of base salary. The percentage of base salary represented by the target STIP award for each Named Executive Officer (as defined below) is as follows: Mr. Nemeth: 60%; Messrs. Baarda, Bayles: 45%; Mr. Posyniak: 40%; Mr. Stapleton: 30%. Target STIP potential is established such that target total cash compensation is positioned between the 75<sup>th</sup> and 90<sup>th</sup> percentile levels of the primary peer group. STIP targets and awards are designed to be reflective of executive performance and are linked to specific value creation within the organization, critical to the viability of a cyclical business. STIP awards are allocated in cash.

The Board established a STIP program for the 2014 calendar year for all salaried employees, including executives. The pool available for STIP payments was calculated as 15% of savings of audited Opportunities for Improvement program (OFIs) by an EBITDA multiplier. STIP awards to executives are based on the recommendation of the CEO and subject to the approval of the GHRCC.

STIP payments to all salaried employees in respect of 2014 performance were funded at 22.5% of target. This is based on \$16.1M in OFI achievement multiplied by 75% EBITDA performance. The Board made STIP payments from this pool to executives in 2015 in respect of company and individual performance in 2014.

Deal completion bonuses related to the acquisition of the Rumford, Maine and Biron, Wisconsin mills were paid to the Named Executives Officers in 2015.

The Board has adopted a new design for the STIP plan for use in 2015 that will be driven by improvement in free cash flow and allocated based on important corporate, business unit and individual measures that focus on increased efficiency, improved safety and quality. The new plan will introduce higher short-term incentive targets in respect of 2015 for the CEO and certain executives as follows: Mr. Nemeth: 100% of salary; Messrs. Bayles and Posyniak: 60%; and Mr. Stapleton: 40%.

### **Mid to Long Term Incentive Plan**

The Board believes that executives should have a stake in the Corporation's future and their interests should be aligned with those of the shareholders.

The MLTIP has targets established for each participant and has three components, each based on 1/3 of the target MLTIP over the MLTIP period for each executive:

1. Time based awards, payable in three instalments at the end of each year of the applicable MLTIP period either through allocations to the Corporation's Supplemental Retirement Plan for Senior Executives (the “**SERP**”) or in cash.
2. Performance based cash awards where free cash flow (calculated as EBITDA less capital expenditures, interest expense, taxes and employee future benefits (excess cash funding over expense)) for any year in the MLTIP period exceeds \$1 million. The payment is calculated for each year by multiplying the 1/3 target MLTIP amount by the ratio of free cash flow for the year over \$12.5 million to a maximum ratio of 2 to 1. There were no performance based cash awards earned in respect of 2014.
3. Grants of PhantomSUs which provide for payments that correspond to the appreciation in the value of the underlying common shares from the grant date (\$1.17 per share in the case of Mr. Nemeth; \$1.20 per share in the case of Mr. Baarda; \$2.59 per share in the case of Mr. Bayles; \$2.20 per share in the case of Mr. Posyniak and \$2.29 per share in the case of Mr. Stapleton) to the vesting date.

In order to be eligible for time based awards, the executive has to be employed by the Corporation on the applicable payment date. Time based awards under the MLTIP can be taken in cash or by way of an allocation under the Corporation's SERP. Vesting of performance based cash awards and PhantomSUs granted under the MLTIP vest, and applicable payments occur, on December 31, 2016 (December 31, 2015 for Mr. Baarda) with accelerated vesting and payment on a pro-rated basis in the event of retirement, death or disability, termination without cause or change of control and similar events. Performance based cash awards and PhantomSUs are forfeited on resignation or termination with cause.

As described under “Compensation Discussion and Analysis”, the Corporation’s compensation strategy is intended to encourage the enhancement of Shareholder value and link the interests of the executive officers with those of the shareholders.

The Corporation determined that as part of its annual review of executive compensation, it would consider alternatives to the present MLTIP model. Specifically, the Corporation wishes to consider moving to an annual LTIP. See “Approval of New Share Compensation Plan – Background” for more information.

The Board and the GHRCC have considered the implications of the risks associated with the Corporation’s compensation policies and practices. No risks have been identified arising from the Corporation’s compensation policies and practices that are reasonably likely to have a material adverse effect on the Corporation. As a result, the Board and the GHRCC do not believe that the Corporation’s compensation policies and practices encourage executive officers of the Corporation to expose the Corporation to inappropriate or excessive risks.

Both the Board and the GHRCC are regularly briefed on the Corporation’s results and their effect on the Corporation’s compensation plans. The STIP for salaried employees and Opportunities for Improvement plan applying to hourly employees are both driven by the financial gains made from operational improvements. The gains are subject to review and validation by the Director of Audit and Risk Management, who reports his finding directly to the Audit Committee. The MLTIP provides the GHRCC with the capacity to apply informed judgement to adjust payouts in the case of an extraordinary event.

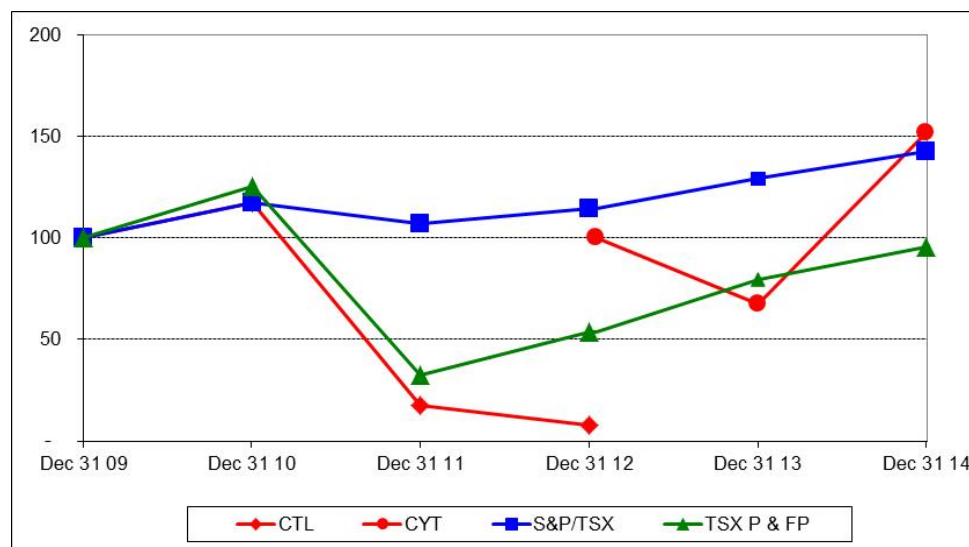
The Corporation does not currently have a policy on whether or not a named executive officer (as described below) or director is permitted to purchase financial instruments that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the named executive officer or director.

## **PERFORMANCE GRAPH**

As described elsewhere in this Annual Report, the Corporation’s current Common Shares (symbol: CYT) were listed and commenced trading on the TSX on January 7, 2013. The TSX had previously suspended trading of the Corporation’s former common shares (symbol: CTL) on February 1, 2012 and delisted them on March 8, 2012 due to the Corporation’s proceedings under the CCAA. The Corporation’s former common shares were then cancelled on September 13, 2012 for no consideration when the restructuring under the Plan of Arrangement completed.

For historical purposes, the following graph compares the yearly percentage change in the Corporation’s cumulative total shareholder return from an investment in the Corporation’s former common shares (symbol: CTL) with the cumulative total return of the S&P/TSX Composite Index (“**S&P/TSX**”) and the TSX Paper & Forest Products Group and Sub Group (“**TSX P&FP**”) over the period from December 31, 2008 to March 8, 2012 when they were delisted and illustrates a cumulative return on a \$100 investment in the Corporation’s former common shares made on December 31, 2008 as compared with the cumulative return on the S&P/TSX and the TSX P&FP on the same dates.

The graph also provides a corresponding comparison for the new Common Shares (symbol: CYT) for the period January 2, 2014 to December 31, 2014. Performance as indicated in the graph does not necessarily indicate future performance.



|          | Dec 31/10 | Dec 31/11 | Dec 31/12 | Dec 31/13 | Dec 31/14 |
|----------|-----------|-----------|-----------|-----------|-----------|
| CTL      | 117.5     | 17.5      | 7.5       | n/a       | n/a       |
| CYT      | n/a       | n/a       | n/a       | 67.5      | 152.0     |
| S&P/TSX  | 117.2     | 107.2     | 114.7     | 129.3     | 142.9     |
| TSX P&FP | 125.6     | 32.6      | 53.8      | 79.6      | 95.6      |

The graph above reflects how the Corporation continued to be negatively impacted by structural changes in the industry in 2010 to 2014 including permanently reduced demand for certain paper products and significant excess production capacity. During this period, the Corporation structured its executive compensation strategy to take into account the cyclical nature and structural deficiencies of the industry and the need to link compensation to specific, objective executive goals, despite cyclicity and deficiencies. No STIP awards were made in respect of the first half of 2010, the last three quarters of 2011, 2012 or in respect of 2013 and 2014.

## COMPENSATION GOVERNANCE

The GHRCC was established by the Board to assist the Board in fulfilling its responsibilities relating to, among other things, determining compensation matters, including the evaluation and approval of the Corporation's compensation plans, policies and programs. It is the GHRCC's responsibility to ensure that the Corporation develops and maintains a compensation program for its executive officers that will be fair and competitive, consistent with the best interests of the Corporation.

The GHRCC is responsible for reviewing the position description and performance goals and objectives relevant to the compensation of the Chief Executive Officer (the "CEO" or "Chief Executive Officer") and for evaluating the CEO's performance in light of those goals and objectives. The GHRCC recommends to the Board the CEO's compensation based on such evaluation. The GHRCC is also responsible for making recommendations to the Board with respect to the compensation of all executive officers, including incentive compensation plans, equity-based plans, the terms of any employment agreement, severance and change of control arrangements and any special or supplemental benefits.

The GHRCC reviews and approves, at the beginning of each year, corporate objectives for the CEO. At the end of the year, the GHRCC evaluates the CEO's performance against those objectives. The results of the assessment are reported to the Board. The GHRCC also reviews the performance of other executives with input from the CEO.

The GHRCC determines the compensation of the Corporation's executive officers, reviews the compensation philosophy and guidelines for executive management as well as the individual compensation of each member of the executive team, and reports its conclusions to the Board for its consideration and approval. The GHRCC also administers any stock option or share-based compensation plans, if applicable, and makes recommendations regarding the granting of stock options or share-based compensation to executive management and other key employees of the Corporation where such stock option or share-based compensation plans are in effect.

The GHRCC met five times in the year ended December 31, 2014.

Messrs. Raymond, Lederer, and Dillabough are all experienced in corporate governance matters. Messrs. Lederer and Dillabough have served as corporate officers of publicly traded companies, and each has significant experience serving on human resources and compensation committees. Prior to joining the Corporation, Mr. Raymond was a securities and corporate finance lawyer with experience handling corporate governance matters.

### ***Executive Compensation – Committee Activities and Related Fees***

The GHRCC has the authority to retain and receive advice from compensation consultants to carry out its duties. The GHRCC periodically receives reports on current executive compensation practices from independent consultants. The last compensation review of all aspects of executive compensation was completed in 2012.

In 2014, the GHRCC engaged Towers Watson to complete a formal review of executive compensation. The GHRCC's work plan developed with Towers Watson included both a review of total compensation as well as specific study of the Corporation's MLTIPs. The fees paid to Towers Watson for work in relation to executive and director compensation matters was \$74,323 in 2014.

While the 2014 executive compensation review was in its early stages, Catalyst began the negotiation to acquire the Rumford and Biron mills. Because the acquisition would change the scale and complexity of the Corporation, the GHRCC asked Towers Watson to expand its mandate to recommend any necessary changes to the peer group to which Catalyst compares its executive compensation.

The primary peer group has been revised to include publicly-traded Canadian forest and paper product companies with annual revenue between \$500 million and \$4.5 billion and publicly-traded U.S. paper product companies with revenue between \$800 million and \$2 billion. Given that close to 50% of Corporation's business is now in the U.S., the talent market for executives has expanded to include similarly-sized U.S. paper product companies. Catalyst's estimated 2015 revenue is positioned close to the 75<sup>th</sup> percentile of this larger group of companies. The primary peers are as follows:

| Canadian Peers               |                               |
|------------------------------|-------------------------------|
| Canfor Corporation           | Canfor Pulp Products Inc.     |
| Interfor Corporation         | Mercer International Inc.     |
| Norbord Inc.                 | Resolute Forest Products Inc. |
| Stella-Jones Inc.            | Tembec Inc.                   |
| West Fraser Timber Co. Ltd.  | West Forest Products Inc.     |
| U.S. Peers                   |                               |
| Clearwater Paper Corporation | Neenah Paper Ltd.             |
| PH Glatfelter Co.            | Verso Paper Corporation       |

The acquisition of the Biron, Wisconsin and Rumford Maine Mills expands the Corporation's production capacity by 65%. The Corporation's product lines and customer base also expands and results in further penetration of the US market. Because of the added scale and complexity of the Corporation, the Corporation has revisited the level of target total compensation of its executive team for closer alignment with the revised primary peer group. The Corporation intends, over time, to increase the compensation opportunity for the executives to reflect the increased scope and complexity of their roles and to align pay levels according to the Corporation's compensation philosophy relative to the new peer group. Based on the revised peer group and the added scale and complexity of the roles, the CEO and certain executives received increases to their target compensation to more closely align with market pay levels.

Towers Watson provides other services to the Corporation in connection with the administration of its salaried employee defined benefit pension plan (closed to new entrants since 1994). The consulting fees paid to Towers Watson for work related to pension plan administration, valuation and other activities was \$374,162 in 2014.since1994.

The Corporation and Towers Watson have taken several steps to maintain the independence of the executive compensation consultant, including ensuring the consultant's pay is not directly affected by any change in services provided by Towers Watson to management. In addition, the executive compensation consultant:

- Is not the client relationship manager;
- Is not involved in any client development activities related to increase consulting services to the Corporation;
- Has limited interactions with management unless they specifically relate to matters for the GHRCC's review and approval; and
- Does not share any confidential information obtained through work with the GHRCC with other segments of Towers Watson.

Any decisions made by the Corporation with respect to the compensation of its executives are its own responsibility and may reflect factors and considerations other than the information provided by any compensation consulting firms.

#### SUMMARY COMPENSATION TABLE

The following table reflects compensation paid during 2014, 2013 and 2012 to each of the Chief Executive Officer, the Chief Financial Officer and the Corporation's three most highly compensated executive officers other than the Chief Executive Officer and Chief Financial Officer earning a combined salary and bonus in excess of \$150,000 in 2014 (each a "Named Executive Officer" or "NEO").

| Name and Principal Position                                                                     | Year | Salary (\$) | Share based Awards <sup>(1)</sup> (\$) | Option based Awards <sup>(2)</sup> (\$) | Non-Equity Incentive Plan Compensation     |                                               | Pension Value <sup>(6)</sup> (\$) | All Other Compensation <sup>(6)</sup> (\$) | Total Compensation (\$) |
|-------------------------------------------------------------------------------------------------|------|-------------|----------------------------------------|-----------------------------------------|--------------------------------------------|-----------------------------------------------|-----------------------------------|--------------------------------------------|-------------------------|
|                                                                                                 |      |             |                                        |                                         | Annual Incentive Plans <sup>(3)</sup> (\$) | Long term Incentive Plans <sup>(4)</sup> (\$) |                                   |                                            |                         |
| J. Nemeth<br>President and Chief Executive Officer                                              | 2014 | 575,000     | —                                      | —                                       | 85,000                                     | 175,000                                       | 294,390                           | —                                          | 1,129,390               |
|                                                                                                 | 2013 | 157,019     | 275,612                                | —                                       | —                                          | 50,000                                        | 75,351                            | —                                          | 557,982                 |
| B. Baarda<br>Vice President,<br>Finance and Chief Financial Officer                             | 2014 | 315,000     | —                                      | —                                       | 31,894                                     | 66,667                                        | 31,501                            | —                                          | 413,168                 |
|                                                                                                 | 2013 | 290,000     | 94,554                                 | —                                       | —                                          | 258,400                                       | 29,000                            | —                                          | 671,954                 |
|                                                                                                 | 2012 | 290,000     | —                                      | —                                       | —                                          | 206,600                                       | 29,000                            | —                                          | 525,600                 |
| J. Bayles <sup>(7)</sup><br>Senior Vice President, Sales & Marketing                            | 2014 | 237,500     | 101,659                                | —                                       | 34,557                                     | 50,000                                        | 21,612                            | —                                          | 445,062                 |
|                                                                                                 | 2013 | 198,750     | —                                      | —                                       | 605                                        | —                                             | 9,968                             | —                                          | 209,332                 |
|                                                                                                 | 2012 | 195,000     | —                                      | —                                       | 1,502                                      | —                                             | 9,825                             | —                                          | 206,327                 |
| L. Posyniak <sup>(8)</sup><br>Senior Vice President, Human Resources                            | 2014 | 98,557      | 98,420                                 | —                                       | 48,747                                     | 66,667                                        | 9,856                             | —                                          | 322,247                 |
| M. Stapleton<br>Vice President and General Manager North American Sales and Product Development | 2014 | 232,020     | 30,498                                 | —                                       | 15,661                                     | 20,012                                        | 25,522                            | 43,406 <sup>(9)</sup>                      | 367,119                 |
|                                                                                                 | 2013 | 186,864     | —                                      | —                                       | —                                          | 70,718                                        | —                                 | 52,629 <sup>(9)</sup>                      | 310,211                 |
|                                                                                                 | 2012 | 207,402     | —                                      | —                                       | —                                          | 71,524                                        | —                                 | 47,409 <sup>(9)</sup>                      | 326,335                 |

(1) Represents the fair value of PhantomSUs as at Grant Date.

(2) There are no outstanding option based awards.

(3) No STIP payments were made in 2012, 2013 or 2014. Amounts in this column reflect other bonuses paid and STIP payments to be made in 2015 for 2014 performance.

(4) Consists of payments made under the 2014 MLTIP.

(5) Amounts in this column for all NEOs reflect annual contributions and allocations to the Corporation's defined contribution pension plan, including the SERP, for the years ended December 31, 2014, 2013, and 2012. The total pension contribution for Mr. Nemeth includes SERP allocations of \$67,500 for 2013 and \$270,000 for 2014 made pursuant to his employment contract.

- (6) Except where indicated, perquisites, including property and personal benefits, do not exceed in the aggregate \$50,000 or more than 10% of the respective Named Executive Officer's total salary for the financial year.
- (7) Mr. Bayles was appointed Senior Vice President, Sales and Marketing on April 1, 2014. Base salary reflects his total base salary in 2014 before and upon his appointment. Mr. Bayles is also a member of the company's DB plan that was closed on January 1, 2010 with no more service being accrued.
- (8) Mr. Posyniak was appointed Senior Vice President, Human Resources and Corporate Services on August 11, 2014.
- (9) Amounts in this column for Mr. Stapleton are premiums paid by the Corporation for his health benefits, life insurance, FICA, Medicare, FUTA and an amount for car allowance.

## INCENTIVE PLAN AWARDS

### Stock Option Plan

The Corporation does not currently have a stock option plan and there were no stock options outstanding as of December 31, 2014. The Share Compensation Plan to be considered for approval at the Meeting as described in this Circular would enable the Corporation to issue stock options.

### Phantom Share Unit Plan

The Corporation has a PhantomSU plan in connection with the current MLTIP. PhantomSUs do not entitle the holder to any shares of the Corporation. Each PhantomSU represents one Common Share and entitles the holder to a payment on the vesting date that corresponds to the increase in value of the underlying Common Shares from the grant date to the vesting date under the MLTIP calculated using the 20 day volume weighted average trading price on the TSX preceding the applicable date. PhantomSUs issued to participants are credited to them by means of an entry in a notional account in their favour on the books of the Corporation. Vesting and payment is determined in accordance with the terms of the MLTIP. Currently there are 810,000 PhantomSUs outstanding under the MLTIP that are held by Named Executive Officers.

### Share Compensation Plan

Other than the Phantom SU plan, the Corporation does not currently have an executive share compensation plan and there were no share awards (other than PhantomSUs) outstanding as of December 31, 2014. The Share Compensation Plan to be considered for approval at the Meeting as described in this Circular would enable the Corporation to issue Restricted Share Units and Performance Share Units.

## OUTSTANDING SHARE BASED AND OPTION BASED AWARDS

The following table shows all outstanding PhantomSUs held by each of the Named Executive Officers as at December 31, 2014. There were no other share-based or option-based awards held by Named Executive Officers as at December 31, 2014.

| Name                       | Share Based Awards <sup>(1)(2)</sup>                         |                                                                        |
|----------------------------|--------------------------------------------------------------|------------------------------------------------------------------------|
|                            | Number of shares or units of shares that have not vested (#) | Market or payout value of share based awards that have not vested (\$) |
| J. Nemeth                  | 449,438                                                      | 955,180                                                                |
| B. Baarda                  | 166,411                                                      | 324,441                                                                |
| J. Bayles <sup>(3)</sup>   | 77,220                                                       | 116,608                                                                |
| L. Posyniak <sup>(4)</sup> | 90,731                                                       | 149,148                                                                |
| M. Stapleton               | 26,200                                                       | 42,246                                                                 |

(1) Represents PhantomSUs under the 2014 MLTIP. Related securities are Common Shares.

(2) PhantomSUs vest on December 31, 2016 for all NEOs and Dec 31, 2015 for Mr. Baarda.

(3) Mr. Bayles was appointed Senior Vice President, Sales and Marketing on April 14, 2014.

(4) Mr. Posyniak was appointed Senior Vice President, Human Resources and Corporate Services on August 11, 2014.

## **INCENTIVE PLAN AWARDS – VALUE VESTED OR EARNED DURING THE YEAR**

No share-based awards vested during 2014. There are no outstanding option based awards as at December 31, 2014.

## **PENSION PLAN BENEFITS**

### ***Defined Contribution Plans***

Named Executive Officers who are Canadian residents participate in a defined contribution plan pursuant to which the Corporation contributes 5% of the executive's base salary and bonus to a maximum of \$24,960 in 2014 (\$24,270 in 2013 and \$23,820 in 2012). The executive directs the investment of his or her defined contribution account based on a number of alternatives. Upon retirement the executive is entitled to all amounts contributed to and earned on his or her defined contribution account, but no minimum amount of investment return or payout is guaranteed.

Named Executive Officers who are United States residents were entitled to participate in a US defined contribution 401K plan ("**US DC Plan**"). The US DC Plan provides for employer matching contributions equal to 100% of the first 3% of eligible pay contributed to the plan, and 50% of the next 2% of eligible pay contributed to the plan. In addition, the Corporation would make regular discretionary non-elective contributions for eligible employees equal to 7% of eligible pay (which is subject to certain limits). The employee directs the investment of his defined contribution account based on a number of alternatives. The employee contribution level and matching contribution levels are subject to certain maximums as limited by law. An employee may choose to contribute after tax contributions up to 10% of eligible pay as limited by law. Under the US DC Plan, eligible pay includes salary, bonus, employer share purchase contributions, and vacation taken in pay. Upon retirement the employee may elect to receive installments or lump sum as provided for by the plan. In addition, the Corporation has established a defined contribution segment of the Corporation's SERP domiciled in Canada. As at December 31, 2014, each of the Named Executive Officers was a member of the defined contribution segment of the SERP.

The Corporation makes regular contributions to the SERP, on behalf of the executives, by way of allocations to their SERP accounts, the amount of which varies among the executives. Mr. Nemeth's SERP account was credited with a lump sum allocations allocation of \$67,500 on October 1, 2013 and \$270,000 on January 1, 2014. He will receive lump sum allocations of \$270,000 on January 1<sup>st</sup> of each of 2015 and 2016 with all such allocations vesting on December 31, 2016. The other eligible Canadian domiciled NEOs' SERP accounts are credited with an amount equal to 10% of their salary and bonus less the amount credited to the defined contribution plan referred to above. Under the defined contribution segment of the SERP, the amount of bonus recognized in pensionable earnings is limited to 50% of the bonus payment for the year subject to a further limit of 50% of the executive's target bonus. The portion of the bonus that is not recognized due to this latter limit may be carried forward to the following calendar years and applied in years in which the target bonus limit is not reached. Amounts for NEOs, other than Mr. Nemeth, vest when allocated.

On retirement, the executive can elect to receive benefits as either a lump sum or in ten equal annual installments, calculated based on the 10 year Government of Canada bond rate. Amounts allocated to the SERP are secured by a letter of credit.

### ***Supplemental Executive Retirement (SERP) Plan***

The purpose of the Supplemental Plan is to provide benefits to Participants to enable them to retire with a total retirement income deemed appropriate by the Board of Directors. Benefits provided by the Supplemental Plan are in addition to and integrated with the benefits provided under the Catalyst Paper Corporation Retirement Plan for Salaried Employees.

The SERP Plan brings the company's total contribution towards an executives' retirement plan to 10%. This is done through regular contributions to a notional account. Monies contributed to the account are then notionally invested in the employee's choice of three funds from the DC Plan. Monies within the SERP plan are secured by a letter of credit.

## DEFINED CONTRIBUTION PLANS TABLE

| Name                       | Accumulated value at start of year (\$) | Compensatory <sup>(1)</sup> (\$) | Non-compensatory <sup>(2)</sup> (\$) | Accumulated value at year end (\$) |
|----------------------------|-----------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| J. Nemeth                  | 80,099                                  | 294,390                          | 36,734                               | 411,223                            |
| B. Baarda                  | 618,036                                 | 31,501                           | 51,055                               | 700,592                            |
| J. Bayles <sup>(3)</sup>   | 48,803                                  | 21,612                           | 5,245                                | 75,660                             |
| L. Posyniak <sup>(4)</sup> | —                                       | 9,856                            | 105                                  | 9,961                              |
| M. Stapleton               | 394,400                                 | 22,000                           | 60,832                               | 477,232                            |

(1) Represents the employer contribution.

(2) Represents non-compensatory amounts including employee contributions and regular investment earnings on employer and employee contributions.

(3) Mr. Bayles was appointed Senior Vice President, Sales and Marketing on April 4, 2014.

(4) Mr. Posyniak was appointed Senior Vice President, Human Resources and Corporate Services on August 11, 2014.

The compensatory amounts paid to the Named Executive Officers pursuant to the Corporation's retirement plans in respect of the year ended December 31, 2014 are included in the Summary Compensation Table under the column entitled "Pension Value". In addition, the amounts in the above table include amounts under the column entitled "Long Term Incentive Plans" in the Summary Compensation Table that were taken as allocations to individual SERP accounts as indicated in Note 5 to the Summary Compensation Table.

## TERMINATION AND CHANGE OF CONTROL BENEFITS

Pursuant to the employment agreement between Mr. Nemeth and the Corporation dated August 19, 2013, if Mr. Nemeth's employment is terminated without cause he will be entitled to be paid (by way of a lump sum or by monthly payments over a period not exceeding 24 months) his then current base salary and pension plan contributions for a period of 2 years or the time remaining between the date of termination and December 31, 2016, whichever is the greater together with an amount equal to two times the average STIP payment actually paid to him in the preceding two years and payments under the 2014 MLTIP in accordance with its terms. Medical and dental benefits will continue for two years after termination or until eligibility for benefits from new employment whichever occurs first. If Mr. Nemeth's employment is terminated or the accountabilities or authority of his role is significantly altered within 12 months after a change of control of the Corporation, he will be entitled to a lump sum payment equal to two years' base salary and pension contribution together with an amount equal to two times the average STIP payment actually paid to him in the preceding two years, payment under the 2014 MLTIP in accordance with its terms and continuation of medical and dental benefits for two years after termination or until eligibility for benefits from new employment whichever occurs first. Assuming that such termination had occurred on December 31, 2014, the estimated value of the incremental payments and benefits to which Mr. Nemeth would be entitled under the agreement is \$2,917,859.

Pursuant to the employment agreement between Mr. Posyniak and the Corporation dated July 11, 2014, if Mr. Posyniak's employment is terminated without cause he will be entitled to continuation of his base salary and pension plan contribution for 24 months following the date of termination (the salary continuance period), together with an amount equal to two times the average STIP payment actually paid to him in the preceding two years and payments under the 2014 MLTIP in accordance with its terms. Medical and dental benefits will continue for two years after termination or until eligibility for benefits from new employment whichever occurs first. The Corporation will continue all employment perquisites and privileges during such period. In addition, Mr. Posyniak will receive outplacement service and financial counselling services to a maximum of \$10,000. If Mr. Posyniak's employment is terminated or the accountabilities or authority of his role is significantly altered within 12 months after a change of control of the Corporation, he will be entitled to a lump sum payment equal to the sum of two years' base salary and pension contribution, together with an amount equal to two times the average STIP payment actually paid to him in the preceding two years, payment under the 2014 MLTIP in accordance with its terms and continuation of medical and dental benefits for two years after termination or until eligibility for benefits from new employment whichever occurs first. Assuming that such termination had occurred on December 31, 2014, the estimated value of the incremental payments and benefits to which Mr. Posyniak would be entitled under the agreement is \$805,929.

Pursuant to the employment agreement between Mr. Bayles and the Corporation dated April 2, 2014, if Mr. Bayles' employment is terminated without cause he will be entitled to continuation of his base salary and pension plan contribution for 24 months following the date of termination (the salary continuance period), and payments under the 2014 MLTIP in accordance with its terms. Medical and dental benefits will continue for two years after termination or

until eligibility for benefits from new employment, whichever occurs first. The Corporation will continue all employment perquisites and privileges during the salary continuance period. Assuming that such termination had occurred on December 31, 2014, the estimated value of the incremental payments and benefits to which Mr. Bayles would be entitled under the agreement is \$727,321.

## BOARD OF DIRECTORS COMPENSATION

The GHRCC Board is responsible for annually reviewing directors' compensation and making recommendations to the Board. Directors may receive their compensation in the form of cash or deferred share units, or a combination of both.

Under the current directors' compensation policy, directors are paid an annual cash retainer, meeting fees and equity compensation through PhantomSUs. The Corporation does not currently have a stock option plan in effect and stock options were not issued in fiscal 2014.

The director's compensation fees changed effective October 1, 2014. The following table shows the director compensation:

| Item                                                                         | January to August,<br>2014<br>Amount | October to December,<br>2014<br>Amount |
|------------------------------------------------------------------------------|--------------------------------------|----------------------------------------|
| <b>1. Chair of the Board</b>                                                 |                                      |                                        |
| • Cash Retainer                                                              | \$160,000/annum                      | \$155,000/annum                        |
| <b>2. Member of the Board</b>                                                |                                      |                                        |
| • Cash retainer                                                              | \$60,000/annum                       | \$55,000/annum                         |
| • Phantom Share Units<br>(consistent with the Corporation's executive MLTIP) | n/a                                  | \$30,000/annum                         |
| • Member (attending)                                                         | \$2,000/meeting                      | \$2,000/meeting                        |
| • Member (by telephone)                                                      | \$1,000/meeting                      | \$1,000/meeting                        |
| <b>3. Equity Compensation – Chair &amp; Members of the Board</b>             | n/a                                  | \$30,000/annum <sup>(1)</sup>          |
| <b>4. Audit Committee of the Board</b>                                       |                                      |                                        |
| • Chair – Annual fee                                                         | \$20,000/annum                       | \$20,000/annum                         |
| • Member – Annual fee                                                        | \$5,000/annum                        | \$5,000/annum                          |
| • Member (attending)                                                         | \$2,000/meeting                      | \$2,000/meeting                        |
| • Member (by telephone)                                                      | \$1,000/meeting                      | \$1,000/meeting                        |
| <b>5. Committees of the Board (other than Audit Committee)</b>               |                                      |                                        |
| • Chair – Annual fee                                                         | \$10,000/annum                       | \$10,000/annum                         |
| • Member – Annual fee                                                        | \$5,000/annum                        | \$5,000/annum                          |
| • Member (attending)                                                         | \$1,500/meeting                      | \$1,500/meeting                        |
| • Member (by telephone)                                                      | \$750/meeting                        | \$750/meeting                          |
| <b>6. Travel - for non-business class travel over 3 hours</b>                | \$1,000/round trip                   | \$1,000/round trip                     |

(1) Represents the face value of equity compensation. The grant-date fair value will be less than the amount per Black-Scholes valuation

### Phantom Share Units (Equity Based Pay)

Directors will be granted PhantomSUs consistent with the Corporation's executive MLTIP as summarized below:

| Terms    | Details                                                       | Alignment with executive MLTIP                               |
|----------|---------------------------------------------------------------|--------------------------------------------------------------|
| Granting | Annual after AGM<br>(timing to be determined)                 | MLTIP grants made on a discrete basis once every three years |
| Payout   | Incremental increase in share price at the end of three years | Same as PhantomSUs component                                 |
| Vesting  | Cliff vest at the end of three years<br>(see example below)   | Same as PhantomSUs component                                 |

| Terms                                 | Details                                                                                                                                                                                                                        | Alignment with executive MLTIP                                                                                                                                          |
|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Market Price                          | Based on Catalyst's 20-day volume weighted average share price                                                                                                                                                                 | Same as PhantomSUs component                                                                                                                                            |
| Settlement                            | Cash                                                                                                                                                                                                                           | Same                                                                                                                                                                    |
| Termination and Retirement Provisions | Fully vests with payout upon termination/retirement based on the market price as of the termination/retirement date. Awards will also fully vest should a Transforming Event occur<br>(suggested approach given annual awards) | Consistent since the MLTIP pro-rates awards for retirement or termination without cause or a Transforming Event but every grant represents three years' worth of awards |

### Phantom Share Units

PhantomSUs will be granted to directors on an annual basis after the AGM. The structure of the PhantomSUs is consistent with those granted to executives, except that awards will fully vest and payout when the director leaves the Board. Currently there are 528,332 PhantomSUs outstanding under the MLTIP that are held by directors.

### DSU Plan

Under the current directors' Deferred Share Unit ("DSU") plan, directors may choose to convert all or part of their cash compensation into DSUs. The number of DSUs granted to a director is equal to the elected amount of the compensation divided by the weighted average price of the Common Shares on the TSX over the ten days prior to the calculation date. The value of the DSUs is payable by the Corporation only after the director's departure from the Board and is equal to the number of DSUs held by the director multiplied by the weighted average price of the Common Shares on the TSX over the ten days prior to the relevant redemption date. Directors may elect to redeem their DSUs at any time prior to December 15<sup>th</sup> of the year following the year they ceased to be a director. All amounts are paid in cash, subject to statutory withholdings. A director may change his or her DSU election prior to the commencement of each calendar year.

As at December 31, 2014 there were no DSUs outstanding.

The following table shows the value and components of the cash compensation elements paid to the Corporation's directors in 2014:

| Director                      | Retainer                  |                     |                               |                         | Attendance Fees     |                         | Travel Fees (\$) | Total Paid <sup>(1)</sup> (\$) |
|-------------------------------|---------------------------|---------------------|-------------------------------|-------------------------|---------------------|-------------------------|------------------|--------------------------------|
|                               | Board Chair Retainer (\$) | Board Retainer (\$) | Committee Chair Retainer (\$) | Committee Retainer (\$) | Board Meetings (\$) | Committee Meetings (\$) |                  |                                |
| John Brecker                  | —                         | 58,750              | —                             | 5,000                   | 14,000              | 9,000                   | 3,000            | 89,750                         |
| John Charles <sup>(2)</sup>   | —                         | 30,000              | —                             | 2,500                   | 4,000               | 3,000                   | —                | 39,500                         |
| Todd Dillabough               | —                         | 58,750              | 10,000                        | 5,000                   | 16,000              | 12,750                  | 1,000            | 103,500                        |
| Walter Jones                  | —                         | 58,750              | 20,000                        | —                       | 16,000              | 10,000                  | 5,000            | 109,750                        |
| Les Lederer <sup>(3)</sup>    | 158,750                   | —                   | —                             | —                       | 16,000              | 12,750                  | 4,000            | 191,500                        |
| Jill Leversage                | —                         | 58,750              | 7,500                         | 5,000                   | 16,000              | 11,000                  | 1,000            | 99,250                         |
| Pierre Raymond <sup>(4)</sup> | —                         | 28,750              | 5,000                         | 2,500                   | 11,000              | 7,500                   | 2,000            | 56,000                         |

(1) PhantomSUs were granted to directors in 2014. No options or other share based awards were granted to directors during 2014.

(2) Mr. Charles retired from the Board effective May 7, 2014.

(3) Mr. Lederer is Chair of the Board.

(4) Mr. Raymond was appointed to the Board effective July 8, 2014.

In 2014, Towers Watson was retained to provide advice to the GHRCC on the market competitiveness of the Corporation's director compensation. Towers Watson was paid an aggregate amount of \$40,365 in respect of such services in 2014.

The following table shows all compensation provided to the directors for the Corporation's most recently completed financial year other than Mr. Nemeth, as Chief Executive Officer of the Corporation, does not receive compensation in his capacity as a director.

| Name                        | Fees earned<br>(\$) | Share based awards <sup>(1)</sup><br>(\$) | Option based awards <sup>(1)</sup><br>(\$) | Non-equity incentive plan compensation<br>(\$) | Pension value<br>(\$) | All other compensation<br>(\$) | Total<br>(\$) |
|-----------------------------|---------------------|-------------------------------------------|--------------------------------------------|------------------------------------------------|-----------------------|--------------------------------|---------------|
| John Brecker                | 89,750              | 14,782                                    | —                                          | —                                              | —                     | —                              | 104,532       |
| John Charles <sup>(2)</sup> | 39,500              | —                                         | —                                          | —                                              | —                     | —                              | 39,500        |
| Todd Dillabough             | 103,500             | 14,782                                    | —                                          | —                                              | —                     | —                              | 118,282       |
| Walter Jones                | 109,750             | 14,782                                    | —                                          | —                                              | —                     | —                              | 124,532       |
| Les Lederer <sup>(3)</sup>  | 191,500             | 14,782                                    | —                                          | —                                              | —                     | —                              | 206,282       |
| Jill Leversage              | 99,250              | 14,782                                    | —                                          | —                                              | —                     | —                              | 114,032       |
| Pierre Raymond              | 56,000              | 14,782                                    | —                                          | —                                              | —                     | —                              | 70,782        |

(1) PhantomSUs were granted to directors in 2014. Represents the fair value of PhantomSUs as at Grant Date. The fair value was estimated using the Black-Scholes option-pricing model assuming, a risk-free interest rate of 1.0%, no annual dividends, a 84% volatility rate, a remaining PhantomSU life of 3 years and a grant date value of \$2.28. The risk-free interest rate was based on a zero-coupon Government of Canada bond with a remaining term approximately equivalent to the expected life of the PSUs. The Corporation estimated the annual dividends per share and, expected price volatility based upon historical experience. No options or other share based awards were granted to directors during 2014.

(2) Mr. Charles retired from the Board effective May 7, 2014.

(3) Mr. Lederer was also paid US\$119,113 for consulting services he provided for the acquisition of the NewPage mills from October 13 to December 31, 2014.

#### **Outstanding Share Based and Option Based Awards**

The following table shows all outstanding PhantomSUs held by each of the directors as at December 31, 2014. There were no other share-based or option-based awards held by directors as at December 31, 2014.

| Name                        | Share Based Awards                                              |                                                                                          |
|-----------------------------|-----------------------------------------------------------------|------------------------------------------------------------------------------------------|
|                             | Number of shares or units of shares that have not vested<br>(#) | Market or payout value of share based awards that have not vested <sup>(1)</sup><br>(\$) |
| John Brecker                | 13,149                                                          | 21,242                                                                                   |
| John Charles <sup>(2)</sup> | —                                                               | —                                                                                        |
| Todd Dillabough             | 13,149                                                          | 21,242                                                                                   |
| Walter Jones                | 13,149                                                          | 21,242                                                                                   |
| Les Lederer                 | 13,149                                                          | 21,242                                                                                   |
| Jill Leversage              | 13,149                                                          | 21,242                                                                                   |
| Pierre Raymond              | 13,149                                                          | 21,242                                                                                   |

(1) PhantomSUs were granted to directors in 2014. Represents the fair value of PhantomSUs as at December 31st, 2014. The fair value was estimated using the Black-Scholes option-pricing model assuming, a risk-free interest rate of 1.0%, no annual dividends, a 84% volatility rate, a remaining PhantomSU life of 3 years and a grant date value of \$2.28. The risk-free interest rate was based on a zero-coupon Government of Canada bond with a remaining term approximately equivalent to the expected life of the PSUs. The Corporation estimated the annual dividends per share and, expected price volatility based upon historical experience. No options or other share based awards were granted to directors during 2014.

(2) Mr. Charles retired from the Board effective May 7, 2014.

#### **Incentive Plan Awards – Value Vested or Earned**

There was no value vested in respect of option-based or share-based awards during 2014. All option-based and share-based awards that were outstanding on September 13, 2012 were cancelled for no consideration on that date pursuant to the Corporation's Plan of Arrangement under the CCAA. As at December 31, 2014 there were no securities authorized for issuance under any stock option plan or share compensation plan.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

As at December 31, 2014 there were no securities authorized for issuance under any equity compensation plan of the Corporation.

### C. BOARD PRACTICES

Each director holds office until the next annual general meeting in 2014 or until his or her successor is elected or appointed, or unless his or her office is earlier vacated under any of the relevant provisions of our by-laws or the CBCA. Directors do not have service contracts with the company.

### COMMITTEES OF THE BOARD

The Board has established an Audit Committee, Environmental, Health and Safety Committee and Governance, Human Resources and Compensation Committee.

### HUMAN RESOURCES AND COMPENSATION COMMITTEE

The compensation of our executive officers is determined by the GHRCC. The current Compensation Committee consists of three independent directors: P. Raymond (Chair), T. Dillabough and L. Lederer.

The Compensation Committee's principal function is to oversee organizational structure, executive appointment and succession, executive compensation, performance review of the Chief Executive Officer, approval of changes to benefit provisions in our salaried pension plans and approval of collective agreements.

The Compensation Committee reviews and approves, at the beginning of each year, corporate objectives for the Chief Executive Officer. At the end of the year, the Compensation Committee evaluates the Chief Executive Officer's performance against those objectives. The results of the assessment are reported to the Board. The Compensation Committee also reviews the performance of other senior executives with input from the Chief Executive Officer.

The Compensation Committee determines the compensation of our executive officers. The Compensation Committee annually reviews the compensation philosophy and guidelines for executive management, as well as the individual compensation of each member of the executive team, and reports its conclusions to the Board for its consideration and approval. The Compensation Committee also administers our stock option plan, restricted share unit plan, phantom share units and other share based compensation plans, if applicable, and makes recommendations regarding our granting of stock options, restricted share units and phantom share units to executive management and other key employees.

#### ***Audit Committee***

The Audit Committee consists of W. Jones (Chair), J. Brecker and J. Leversage. Each of these directors are independent for the purposes of sitting on the Audit Committee, as defined under applicable legislation, and are financially literate. The Board has determined that Ms. Leversage qualifies as an "audit committee financial expert" for the purposes of applicable legislation. The relevant education and experience of each Audit Committee member is as follows:

| <u>Name</u>        | <u>Relevant Education and Experience</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Walter Jones ..... | Mr. Jones holds a Bachelor of Science in industrial engineering from Pennsylvania State University. He has more than 25 years of experience as a turnaround advisor, chief restructuring officer or operating trustee for troubled companies in a broad range of industries. Mr. Jones was previously a principal in the restructuring practice of a large regional accounting firm, acted as vice-president of finance of a merchant banking firm specializing in financially troubled companies and as a general management consultant with a national accounting and consulting firm. Mr. Jones is a member of one other audit committee. |
| John Brecker ..... | Mr. Brecker holds a law degree from St. John's University and a political science degree from American University. He has extensive director and management experience in a family of hedge funds and in those capacities actively supervised financial officers.                                                                                                                                                                                                                                                                                                                                                                            |

| <b>Name</b>          | <b>Relevant Education and Experience</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Jill Leversage ..... | Ms. Leversage has been a chartered accountant since 1981. She has extensive director and corporate experience in financial management. She is an Accredited Director of the Institute of Chartered Secretaries & Administrators, a fellow of the Institute of Chartered Accountant of BC, holds a CBV designation from the Canadian Institute of Chartered Business Valuators and obtained a Bachelor of Commerce from the University of Calgary. Ms. Leversage is a member of two other audit committees. |

The roles and responsibilities of the Audit Committee are contained in its terms of reference, which are reviewed annually. The principal functions of the Audit Committee are:

- (i) to review all financial information and statutory disclosure documents prior to their approval by the Board and their distribution to Shareholders and other interested persons;
- (ii) to evaluate systems of internal control and procedures for financial reporting;
- (iii) to review and recommend for approval by the Board the terms of engagement and remuneration of the external auditors;
- (iv) to monitor the performance of the external and internal auditors and assess the independence thereof; and
- (v) to recommend to the Board the appointment of investment managers for our salaried pension plans and to monitor the performance of these managers.

The Board, through the Audit Committee, identifies and reviews with management the principal risks facing us and ensures that appropriate risk management systems and internal control systems are implemented. The Audit Committee is also responsible for our financial reporting processes and the quality of our financial reporting. The Audit Committee is free to communicate with our external and internal auditors at any time, and the Committee meets with our internal and external auditors, without management present, on a regular basis.

Through the Audit Committee the Board has approved policies relating to the treatment and disclosure of corporate information. Public disclosure about us is reviewed by a group that includes the Chief Executive Officer, Chief Financial Officer, legal, investor relations and corporate controller's departments, and others as required, to ensure timely and accurate disclosure.

All quarterly and annual financial statements, press releases, investor presentations and other corporate materials are posted immediately on our website ([www.catalystpaper.com](http://www.catalystpaper.com)) and on SEDAR at [www.sedar.com](http://www.sedar.com). We provide live internet and conference call access to interested parties in connection with the release of its quarterly financial information.

The Audit Committee is responsible for pre-approving all non-audit services to be performed by the external auditors. The Chair of the Audit Committee is authorized to pre-approve non-audit services that have a value equal to up to \$100,000. All non-audit services pre-approved by the Chair are presented to the Committee at its first scheduled meeting following the Chair's pre-approval. In March, 2015, the Audit Committee approved the engagement of the external auditors for the period ending February 28, 2016 for the provision of certain tax related services and miscellaneous accounting advice having an aggregate cost of \$150,000.

During the last two years, the company paid the following fees to its external auditors:

|                         | Period ending December 31 |                  |
|-------------------------|---------------------------|------------------|
|                         | 2013                      | 2014             |
| Audit Fees .....        | \$394,500                 | 400,000          |
| Audit Related Fees..... | 23,500                    | 13,000           |
| Tax Fees .....          | 84,000                    | 100,000          |
| Total .....             | <u>\$502,000</u>          | <u>\$513,000</u> |

#### **Environmental, Health and Safety Committee**

The Environmental, Health and Safety Committee currently consists of Todd Dillabough (Chair), Leslie Lederer and Pierre Raymond, all of whom are independent.

The mandate of the Committee is to:

- (i) establish principles of environment, health and safety stewardship for the company;
- (ii) monitor the company's compliance with those principles;
- (iii) review the company's methods of communicating environmental, health and safety policies and procedures; and
- (iv) review the risks related to environmental issues, including an evaluation of the cost benefit associated with those risks.

The Committee also reviews directors' duties and responsibilities related to environmental, health and safety matters and recommends practices and procedures to the Board which may be conducive to fulfilling the company's environmental, health and safety policies.

#### **D. EMPLOYEES**

We have approximately 2,700 active hourly and salaried employees in Canada and the United States.

Approximately 1,200 hourly employees at our Canadian pulp and paper mills and the Surrey Distribution Centre are members of either Unifor or the Pulp, Paper and Woodworkers of Canada ("PPWC").

In our US mills, which were acquired on January 7, 2015, approximately 940 hourly employees are covered by collective agreements with United Steelworkers ("USW"), the International Brotherhood of Electrical Workers ("IBEW"), the Office and Professional Employees International Union ("OPEIU"), the International Association of Machinists and Aerospace Workers ("IAM") and the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry ("UA").

In the Crofton, Port Alberni and Powell River mills, located in British Columbia, Canada, hourly employees are represented by Unifor and PPWC under five year collective agreements that expire on April 30, 2017. In addition, Unifor is the bargaining agent for a group of hourly employees working in the Surrey Distribution Centre, located in Surrey, British Columbia. This collective agreement expires on March 31, 2015. The parties are scheduled to commence collective bargaining for a renewal collective agreement commencing late March 2015.

The US mills are located in Rumford, Maine and Biron, Wisconsin. Both mills are subject to a Master Labour Agreement entered between the predecessor owners of these mills and the various impacted unions. Catalyst became the successor employer and assumed the obligations under the existing collective agreements through its purchase of these mills. The Master Labour Agreement has an effective date from December 21, 2012 to December 20, 2016 and sets out certain terms and conditions of employment for hourly employees in the covered locations which are in addition to the terms set out in the individual collective agreements applicable to each mill.

The USW, OPEIU, IAM, UA and IBEW represent employees in the Biron mill. At the Rumford mill, hourly employees are represented by the IBEW and the USW. Originally, the expiry dates for these collective agreements were to occur at various times throughout 2015; however, per the Master Labour Agreement, the expiry dates for the collective agreements were extended to March 31, 2018 for the Biron mill and to June 30, 2018 for the Rumford mill.

## **E. SHARE OWNERSHIP**

Our directors and officers as a group beneficially own, directly or indirectly, or exercise control or direction over, less than one percent of the issued and outstanding common shares.

The company does not currently have a stock option or a restricted share unit ("RSU") plan. Effective September 13, 2012 the company's previous stock option and restricted share unit plans ceased to be in effect and all outstanding stock options and restricted share unit plans were cancelled for no consideration pursuant to the company's Plan of Arrangement under the CCAA. There are accordingly no stock options or restricted share units outstanding as of December 31, 2013. The Company is considering the adoption of a share compensation plan that would include the possibility of issuing stock options, performance share units and restricted stock units. The adoption of such a plan would be subject to shareholder and TSX approval.

As at March 3, 2015 the authorized capital of the company consists of an unlimited number of Common Shares and 100,000,000 preferred shares, of which 14,527,571 Common Shares and no preferred shares are issued and outstanding.

## **ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. MAJOR SHAREHOLDERS**

To the knowledge of the directors and executive officers of the Corporation, as at March 3, 2015, the only persons that beneficially own, directly or indirectly, or exercises control or direction over, more than 10 per cent of the outstanding Common Shares are:

- (i) Cyrus Capital Partners L.P. who maintain an aggregate number of Common Shares held by all of its managed accounts of 6,451,141 Common Shares, which represents approximately 44.4% of the outstanding Common Shares; and
- (iii) Mudrick Capital Management, L.P. who maintain an aggregate number of Common Shares held by all of its managed accounts of 2,572,473 Common Shares, which represents approximately 117.7% of the outstanding Common Shares.

### **B. RELATED PARTY TRANSACTIONS**

The company did not undertake any related party transactions during the year ended December 31, 2014.

### **C. INTERESTS OF EXPERTS AND COUNSEL**

Information not required for an annual report.

## **ITEM 8 FINANCIAL INFORMATION**

### **A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

See Item 17, "Financial Statements"

### ***Legal Proceedings***

We occasionally become party to legal proceedings, generally related to contract disputes and employment law in the ordinary course of business. The final results of currently ongoing legal proceedings, while not immediately determinable, are not expected to have a material effect on our financial results.

## Contingencies

### *Petition for Imposition of Countervailing Duties on Supercalendered Paper*

On February 26, 2015, a petition was submitted on behalf of the Coalition for Fair Paper Imports to the U.S. Department of Commerce and the U.S. International Trade Commission for the imposition of countervailing duties on U.S. imports of supercalendered paper from Canada. Catalyst Paper is one of four Canadian paper exporters who were named in the petition. We are consulting with legal counsel on this matter. At present, we are unable to estimate the likelihood that the petition will result in a countervailing duty investigation, and if initiated, the likelihood that countervailing duties will be imposed.

### *Claim Filed for Partial Refund of Purchase Price Paid*

On September 24, 2014, Catalyst Paper filed a Notice of Civil Claim of \$30.0 million in the Supreme Court of British Columbia against NS Industries Limited and its parent, Norske Skogindustrier ASA of Norway for the partial refund of the purchase price paid by Catalyst Paper, including interest, for companies purchased under an agreement entered into in 1997. It is too early to assess the outcome of this claim.

### *Unsuccessful Appeal of Sales Tax Ruling*

On February 4, 2015, the British Columbia Court of Appeal overturned the January 28, 2014, Supreme Court of British Columbia ruling in favour of Catalyst Paper in the company's action against the Province of British Columbia involving a reassessment of the amount of sales tax payable under the Social Services Tax Act on electricity purchased from PREI in 2001 through 2010.

## Export Sales

Export sales constitute a significant portion of our sales. The following chart describes our total export sales and describes the percentage of total export sales for Canada, United States and other countries for the last three fiscal years.

(In millions of dollars, except where otherwise stated)

|                      | 2012 <sup>1</sup> |     | 2013 <sup>1</sup> |     | 2014    |     |
|----------------------|-------------------|-----|-------------------|-----|---------|-----|
|                      | \$                | %   | \$                | %   | \$      | %   |
| Canada               | 147.8             | 14  | 121.6             | 11  | 108.6   | 10  |
| United States        | 515.8             | 49  | 523.9             | 50  | 532.0   | 48  |
| Asia and Australasia | 303.9             | 29  | 303.0             | 29  | 361.5   | 33  |
| Latin America        | 87.7              | 8   | 102.7             | 10  | 106.7   | 9   |
| Europe & Other       | 3.0               | 0   | 0.2               | -   | 0.5     | -   |
| Total sales          | 1,058.2           | 100 | 1,051.4           | 100 | 1,109.3 | 100 |

<sup>1</sup> Excludes Snowflake sales; the Snowflake operation was classified as a discontinued operation in 2012 and comparative numbers were restated accordingly.

## Dividend Policy

We are not permitted to pay dividends to holders of our Common Shares under the terms of the indenture governing our 2017 Notes while our 2017 Notes are outstanding. No dividends have been paid in the last five years.

## B. SIGNIFICANT CHANGES

No significant changes have occurred since the date of the annual financial statements provided herein.

## ITEM 9 THE OFFER AND LISTING

### A. OFFER AND LISTING DETAILS

#### *Common Shares*

As at March 3, 2015, the company has 14,527,571 common shares outstanding. These common shares were issued in 2012 to certain secured and unsecured creditors under the Plan and were listed on the TSX under the symbol "CYT" on January 7, 2013.

On February 1, 2012, the TSX suspended the trading of our former common shares (symbol "CTL") on the TSX due to the commencement of our proceedings under the CCAA. The last day that our shares traded on the TSX was January 31, 2012. At the close of market on March 8, 2012, the TSX delisted the company's common shares on the basis that the company no longer met the TSX continued listing requirements as a result of our financial condition and the commencement of our CCAA proceedings in January, 2012. During the month of January, 2012, the common shares traded at a high of \$0.35, a low of \$0.01 and an average daily volume of 2,111,500 shares. The company's former common shares did not trade on the TSX during the remainder of 2012 and were cancelled for no consideration effective September 13, 2012.

Using information from published sources, the following information shows the high and low trading values of our common shares ("CYT") for the periods indicated:

|                                     | <b>High<br/>(\$)</b> | <b>Low<br/>(\$)</b> |
|-------------------------------------|----------------------|---------------------|
| <b><u>For the year ended</u></b>    |                      |                     |
| December 31, 2014                   | 3.50                 | 1.35                |
| December 31, 2013                   | 2.76                 | 1.00                |
| <b><u>For the quarter ended</u></b> |                      |                     |
| December 31, 2014                   | 3.50                 | 2.24                |
| September 30, 2014                  | 2.83                 | 1.90                |
| June 30, 2014                       | 3.12                 | 2.01                |
| March 31, 2014                      | 3.25                 | 1.35                |
| December 31, 2013                   | 1.40                 | 1.00                |
| September 30, 2013                  | 1.30                 | 1.00                |
| June 30, 2013                       | 2.50                 | 1.00                |
| March 31, 2013                      | 2.76                 | 1.51                |
| <b><u>For the month ended</u></b>   |                      |                     |
| February 28, 2015                   | 7.50                 | 5.60                |
| January 31, 2015                    | 6.77                 | 3.09                |
| December 31, 2014                   | 3.50                 | 2.65                |
| November 30, 2014                   | 3.12                 | 2.68                |
| October 31, 2014                    | 3.01                 | 2.24                |
| September 30, 2014                  | 2.56                 | 2.01                |

### B. PLAN OF DISTRIBUTION

Information not required for an annual report.

### C. MARKETS

See Item 9.A above.

**D. SELLING SHAREHOLDERS**

Information not required for an annual report.

**E. DILUTION**

Information not required for an annual report.

**F. EXPENSES**

Information not required for an annual report.

**ITEM 10 ADDITIONAL INFORMATION**

**A. SHARE CAPITAL**

Information not required for an annual report.

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

*Description of Share Capital*

We are authorized to issue an unlimited number of common shares and 100,000,000 preferred shares. As of December 31, 2014, there were 14,527,571 common shares issued and outstanding and no preferred shares issued and outstanding. All of the issued and outstanding common shares are fully paid. Holders of common shares are entitled to receive dividends as and when declared by our Board of Directors and, unless otherwise provided by legislation, are entitled to one vote per share on all matters to be voted on at all meetings of shareholders. Upon the voluntary or involuntary liquidation, dissolution or winding-up of the company, the holders of common shares are entitled to share rateably in the remaining assets available for distribution after payment of liabilities. The common shares are not subject to any future call or assessment and there are no pre-emptive, conversion or redemption rights attached to the common shares.

We do not, nor do any of our subsidiaries, hold any common shares in the capital of the company.

As of March 3, 2015 there are no outstanding stock options or restricted share units nor are there any stock option or restricted share unit plans in effect.

*Description of Articles of Amalgamation and By-Laws*

Our articles of amalgamation issued pursuant to the CBCA contain no restrictions on the business we may carry on.

Our articles of amalgamation and by-laws contain no restrictions on the power of directors:

1. to vote on a proposal arrangement or contract in which the director is materially interested;
2. in the absence of an independent quorum, to vote compensation to themselves or any member of their body; or
3. with respect to borrowing powers exercisable by the directors or how such borrowing powers may be varied.

The restrictions on the ability of a director to vote and the requirement to disclose his or her interest are governed by applicable corporate legislation. There are no restrictions or provisions in our articles of amalgamation or by-laws regarding the retirement or non-retirement of directors under an age limit, although the Board of Directors' Administrative Guidelines provide that a director must retire at the age of 70, unless otherwise approved by the Board of Directors. There are no restrictions or provisions in our articles of amalgamation or by-laws pertaining to the number of shares required for director qualification.

### *Rights, Preferences and Restrictions of Shares*

Holders of common shares have a right to receive dividends if, as and when declared by the directors. There is no time limit after which dividend entitlement lapses. Each common share entitles the holder to one vote on a poll in respect of the election of directors and any other matter properly coming before a meeting of such holders.

Our directors do not stand for re-election at staggered intervals and cumulative voting for the election of our directors is not permitted. Neither the common shares nor the preferred shares have any right to share in our profits, other than in respect of dividends.

The holders of common shares, subject to the rights of any issued and outstanding preferred shares, have the right to share pro-rata in any surplus in the event of our liquidation.

There are no redemption or sinking fund provisions or liability to further capital calls on holders of common shares. Special rights and restrictions that may be attached to any series of preferred shares issued in the future may include redemption or sinking fund provisions.

The rights, preferences and restrictions applicable to preferred shares will be determined by the Board of Directors at the time such preferred shares are created and issued.

### *Meetings*

Meetings of shareholders may be called by our directors and may be requisitioned by the holders of not less than five percent of our issued share capital carrying the right to vote at a meeting. The court may also call a meeting of shareholders upon application by any director or shareholder. For the purposes of determining shareholders entitled to receive notice of a meeting, the directors may fix an advance date as the record date for such determination. Any record date shall not precede by more than 50 days or by less than 21 days the date on which the meeting is to be held. Each registered shareholder and our auditor is entitled to attend at meetings of shareholders.

There are no limitations on the right to own our securities, including the right of non-resident or foreign shareholders to hold or exercise voting rights on our securities, imposed by the laws of Canada or by our articles of amalgamation or by-laws. There are no provisions in our articles of amalgamation or by-laws that would have the effect of delaying, deferring or preventing a change of control of us and that would only operate with respect to a merger, acquisition or corporate restructuring involving us or any of our subsidiaries.

There are no provisions in our articles of amalgamation or by-laws governing the ownership threshold above which shareholder ownership must be disclosed.

## **C. MATERIAL CONTRACTS**

1. Restructuring and Support Agreement dated March 11, 2012 among the Corporation and certain holders of the Corporation's 2016 Notes and 2014 Notes.
2. Second Amended and Restated Plan of Compromise and Arrangement of the Corporation dated June 14, 2012.
3. Indenture, dated as of September 13, 2012, governing the Corporation's issuance of secured debentures, notes, bonds or other evidences of indebtedness in an unlimited aggregate principal amount to be issued from time to time pursuant to the Indenture, among Catalyst, the subsidiary guarantors and Wilmington Trust, National Association, as trustee.
4. First Supplemental Indenture dated as of September 13, 2012, among the Corporation, the subsidiary guarantors named therein and Wilmington Trust, National Association, as trustee governing the terms of the Corporation's PIK Toggle Senior Secured Notes due October 30, 2017.
5. Second Supplemental Indenture dated as of September 13, 2012, among the Corporation, the subsidiary guarantors named therein and Wilmington Trust, National Association, as trustee governing the terms of the Corporation's Floating Rate Senior Secured Notes due September 13, 2016.

6. Credit Agreement dated as of September 13, 2012 among Catalyst, certain lenders party thereto, Canadian Imperial Bank of Commerce as Administrative Agent and Co-Collateral Agent with Wells Fargo Capital Finance Corporation Canada.
7. First Amending Agreement dated as of March 20, 2014 among Catalyst, certain lenders party thereto, Canadian Imperial Bank of Commerce as Administrative Agent.
8. Credit Agreement dated as of March 20, 2014 among Catalyst, certain lenders party thereto, Canadian Imperial Bank of Commerce as Administrative Agent and Co-Collateral Agent with Wells Fargo Capital Finance Corporation Canada.
9. Second Amending Agreement as of January 7, 2015 among Catalyst, certain lenders party thereto, Canadian Imperial Bank of Commerce as Administrative Agent.
10. Asset Purchase Agreement dated October 30, 2014 as amended among Catalyst Paper Holdings Inc., Catalyst Paper Operations Inc., NewPage Corporation, NewPage Wisconsin System Inc. and Rumford Paper Company.

#### **D. EXCHANGE CONTROLS**

The *Investment Canada Act* ("ICA") generally prohibits implementation of a reviewable investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture that is not a "Canadian" as defined in the ICA ("non-Canadian"), unless after review, the minister responsible for the ICA (the "Minister") is satisfied that the investment is likely to be of net benefit to Canada. An investment in common shares of the company by a non-Canadian (other than a "WTO Investor" as defined in the ICA) would be reviewable under the ICA if it was an investment to acquire direct control of us and our value of our assets was \$5,000,000 or more.

With regard to an investment in common shares of the company by a WTO Investor, it would be reviewable under the ICA if it was an investment to acquire direct control of us and the value of our assets of equals or exceeds a specified amount (the "Review Threshold"), which is revised every year. The Review Threshold was \$354 million for investments completed in 2014 and is indexed as of the first of January every year. The Review Threshold for investments completed in 2015 has increased to \$369 million.

A non-Canadian, whether a WTO Investor or otherwise, would acquire control of the company for the purposes of the ICA if he acquired a majority of our common shares. Except in limited circumstances, the acquisition of less than a majority but one-third or more of our common shares would be presumed to be an acquisition of control of the company unless it could be established we are not controlled in fact by the acquirer through the ownership of common shares. An acquisition of less than one-third of our common shares would be deemed not to constitute an acquisition of control.

Certain transactions in relation to our common shares would be exempt from the ICA, including:

- an acquisition of our common shares by a person in the ordinary course of that person's business as a trader or dealer in securities;
- an acquisition of control of the company in connection with the realization of a security interest granted for a loan or other financial assistance and not for any purpose related to the provision of the ICA; and
- an acquisition of control of the company by reason of an amalgamation, merger, consolidation or corporate reorganization following which the ultimate direct or indirect control in fact of the company, though the ownership of voting interests, remains unchanged.

The ICA was amended on June 26, 2013, when the *Economic Action Plan 2013 Act* ("EAP") received royal assent. As a result of the EAP, the Review Threshold is set to increase to an enterprise value of assets of \$600 million and eventually will reach \$1 billion, and includes certain limitations for WTO Investors that are state-owned enterprises which term has been more broadly defined. The provisions of the EAP relating to the Review Threshold and have not yet come into force and regulations describing the manner in which the enterprise value is to be determined have not yet been prescribed. Until such time, the Review Threshold described above continues to apply. Additionally, all investments in Canada - even those that do not amount to an acquisition of control - may now be reviewed on grounds of whether they are likely to be injurious to national security. In particular, upon referral by the Minister, the governor in Counsel may take measures in respect of an investment that it considers advisable to protect national

security, including, among other things, (a) directing the non-Canadian not to implement the investment, (b) authorizing the investment on certain conditions, or (c) requiring the non-Canadian to divest themselves of control of the Canadian business or of their investment.

Our ability to declare and pay dividends is significantly restricted by the covenants in the indentures governing our senior notes and in the documentation relating to our credit facilities. No dividends have been paid during the last five years.

## **E. TAXATION**

### **Certain U.S. Federal Income Tax Considerations**

The following is a summary of certain United States federal income tax considerations relevant to the ownership and disposition of our common shares, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based on the tax laws of the United States (including the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions) as in effect on the date hereof, all of which are subject to change, possibly with retroactive effect. We have not sought any ruling from the Internal Revenue Service (the "IRS") with respect to the statements made and the conclusions reached in the following summary, and no assurance can be made that the IRS will agree with such statements and conclusions.

This summary applies only if an investor holds our common shares as capital assets. Unless specifically stated otherwise, this summary also does not address the tax considerations arising under the laws of any country other than the United States, any United States state, or any local jurisdiction. In addition, this summary does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

- banks, insurance companies, or other financial institutions;
- holders subject to the alternative minimum tax;
- tax-exempt organizations;
- brokers or dealers in securities or commodities;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- foreign (non-United States) persons or entities;
- persons that are S-corporations, partnerships or other pass-through entities;
- expatriates and certain former citizens or long-term residents of the United States;
- holders whose functional currency is not the U.S. dollar;
- persons holding our common shares as part of a hedging, straddle, conversion or constructive sale transaction or other risk reduction transactions;
- grantor trusts;
- real estate investment trusts or regulated investment companies; or
- persons who are resident or ordinarily resident in Canada.

Investors should consult their tax advisors about the United States federal, state, local and foreign tax consequences to them of the ownership and disposition of our common shares.

The summary below applies to an investor only if such investor is a beneficial owner of our common shares, is not resident in Canada for purposes of the income tax treaty between the United States and Canada (the "U.S. Tax Treaty"), and is, for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for United States federal income tax purposes) created or organized in the United States or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust that (i) is subject to the primary supervision of a United States court and the control of all substantial decisions by one or more United States persons or (ii) has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

## **Taxation of Common Shares**

### *Dividends*

Subject to the passive foreign investment company rules discussed below, the gross amount of any distribution by us of cash or property with respect to common shares, including any Canadian tax withheld, will be includable in income by an investor as dividend income at the time of receipt to the extent such distributions are made from our current or accumulated earnings and profits as determined under United States federal income tax principles. Such a dividend will not be eligible for the dividends received deduction generally allowed to corporate shareholders. To the extent, if any, that the amount of any distribution by us exceeds our current and accumulated earnings and profits as determined under United States federal income tax principles, it will be treated first as a tax-free return of an investor's adjusted tax basis in the common shares and thereafter as capital gain. Notwithstanding the foregoing, we do not intend to maintain calculations of earnings and profits as determined under United States federal income tax principles. Therefore, an investor should expect that a distribution generally will be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

For taxable years beginning before January 1, 2011, dividends received by an individual may be eligible for preferential rates of taxation, provided (i) certain holding period requirements are satisfied, (ii) the Company is eligible for the benefits of the U.S. Tax Treaty, and (iii) we are not, and in the preceding year were not, a "passive foreign investment company". Dividends received after December 31, 2010 and dividends that are not eligible for preferential rates of taxation will be subject to ordinary income tax rates.

Dividends paid in Canadian dollars will be included in an investor's gross income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the Canadian dollars are converted into U.S. dollars at that time. If Canadian dollars are converted into U.S. dollars on the date of receipt, an investor generally should not be required to recognize any foreign exchange gain or loss. An investor who receives a distribution of Canadian dollars and converts the Canadian dollars into U.S. dollars subsequent to the date of receipt of such Canadian dollars will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the Canadian dollar against the U.S. dollar. Such gain or loss will generally be U.S. source ordinary income or loss. Investors should consult their tax advisors regarding the treatment of a foreign currency gain or loss.

### *Sale or Exchange of Common Shares*

Subject to the passive foreign investment company rules discussed below, generally an investor will recognize gain or loss on the sale or exchange of common shares equal to the difference between the amount realized on such sale or exchange and an investor's adjusted tax basis in the common shares. Gain or loss recognized by an investor on the sale or exchange of a common share generally will be capital gain or loss and generally will be long-term if held more than one year and otherwise short-term. Long-term capital gains recognized by non-corporate investors, including individuals, generally will be subject to a maximum rate of tax of 15%. The deductibility of capital losses is subject to limitations.

If the consideration an investor receives for the common shares is not paid in U.S. dollars, the amount realized will be the U.S. dollar value of the payment an investor receives determined by reference to the spot exchange rate in effect

on the date of the sale or exchange or, if the common shares sold or exchanged are traded on an “established securities market” and an investor is a cash basis taxpayer or an electing accrual basis taxpayer, the spot exchange rate in effect on the settlement date. An investor will have a tax basis in any foreign currency received equal to the U.S. dollar amount realized. Any gain or loss an investor realizes on a subsequent conversion of foreign currency will be U.S. source ordinary income or loss, as the case may be.

### **Foreign Tax Credit Considerations**

For purposes of the U.S. foreign tax credit limitations, dividends on the common shares will be foreign source income and will generally constitute “passive category income” but could, in the case of certain investors, constitute “general category income.” In general, gain or loss realized upon sale or exchange of the common shares by an investor will be U.S. source income or loss, as the case may be.

Subject to certain complex limitations, including holding period requirements, generally an investor will be entitled to a credit against an investor’s United States federal income tax liability or a deduction in computing an investor’s United States federal taxable income in respect of any Canadian taxes withheld by us (to the extent not refundable). Investors should consult their tax advisors as to the consequences of Canadian withholding taxes and the availability of a foreign tax credit or deduction.

### **Passive Foreign Investment Company Status**

The foregoing discussion assumes that we were not a Passive Foreign Investment Company (“PFIC”) for any taxable year during which an investor held common shares. In general, a non-U.S. corporation is classified as a PFIC for each taxable year in which (i) 75% or more of its gross income is passive income (as defined for U.S. federal income tax purposes) or (ii) on average for such taxable year, 50% or more (by value) of its assets either produce or are held for the production of passive income. To the best of our knowledge and belief and based on information available, we are not and have not been a PFIC at least within the most recent five years, and we expect that we will not become a PFIC in the foreseeable future. However, PFIC classification is factual in nature, generally cannot be determined until the close of the taxable year in question, and is determined annually based on application of complex rules which are uncertain in some respects. Consequently, we cannot provide any assurance that we have not been or will not become a PFIC for any taxable year during which an investor holds or held common shares. If we were determined to be a PFIC for any taxable year during which an investor holds or held common shares, an investor could be subject to special, adverse U.S. federal income tax rules (including increased tax liability). Investors should consult their own tax advisors concerning the U.S. federal income tax consequences of Catalyst being or having been a PFIC.

### **Information Reporting and Backup Withholding**

An investor (other than an “exempt recipient,” including a corporation and certain other persons who, when required, demonstrate their exempt status) may be subject to backup withholding at a rate of 31%, and to information reporting requirements with respect to dividends on, and to proceeds from the sale or exchange of, the common shares. In general, if a non-corporate investor subject to information reporting fails to furnish a correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements, backup withholding may apply. The backup withholding tax is not an additional tax and may be credited against an investor’s regular United States federal income tax liability or refunded by the IRS where applicable.

### **Canadian Federal Income Tax Considerations**

The following is a summary of the principal Canadian federal income tax consequences generally applicable to a holder of common shares of Catalyst (a “U.S. holder”) who (i) deals at arm’s length with Catalyst, (ii) holds such common shares as capital property, and who for the purposes of the *Income Tax Act* (Canada) (the “Act”) and the Canada-United States Income Tax Convention (the “Treaty”), (iii) is at all relevant times resident in the United States, (iv) is not and is not deemed to be resident in Canada, (v) is entitled to full benefits under the Treaty, and (vi) does not use or hold and is not deemed to use or hold the common shares in carrying on a business in Canada. Special rules, which are not discussed below, may apply to a U.S. holder which is an insurer that carries on business in Canada and elsewhere or that is a limited liability company. Such U.S. holders are advised to consult their own tax advisors.

This summary is of a general nature only and is not, and should not be interpreted as, legal or tax advice to any particular U.S. holder and no representation is made with respect to the Canadian income tax consequences to any

particular person. Accordingly, U.S. holders are advised to consult their own tax advisors with respect to their particular circumstances.

Under the Act and the Treaty, a U.S. holder of common shares will generally be subject to a 15% withholding tax on dividends paid or credited or deemed by the Act to have been paid or credited on such shares. The withholding tax rate is 5% where the U.S. holder is a corporation that beneficially owns at least 10% of the voting shares of Catalyst and the dividends may be exempt from such withholding in the case of some U.S. holders such as certain qualifying pension funds and charities.

In general, a U.S. holder will not be subject to Canadian income tax on capital gains arising on the disposition of common shares of Catalyst at a time that the Catalyst's common shares are listed on the TSX unless (i) at any time in the 60-month period immediately preceding the disposition, 25% or more of the shares of any class or series of the capital stock of Catalyst were owned by the U.S. holder, persons with whom the U.S. holder did not deal at arm's length for purposes of the Act or the U.S. holder and such persons and (ii) the value of the common shares of Catalyst at the time of the disposition derives principally from real property (as defined in the Treaty) situated in Canada. For this purpose, the Treaty defines real property situated in Canada to include rights to explore for or exploit mineral deposits, sources and other natural resources situated in Canada, rights to amounts computed by reference to the amount or value of production from such resources, certain other rights in respect of natural resources situated in Canada and shares of a corporation the value of whose shares is derived principally from real property situated in Canada.

#### **F. DIVIDENDS AND PAYING AGENTS**

Information not required for an annual report.

#### **G. STATEMENTS BY EXPERTS**

Information not required for an annual report.

#### **H. DOCUMENTS ON DISPLAY**

Any documents referred to in this annual report shall be available for review at the registered office of the Company located at 2nd floor, 3600 Lysander Lane, Richmond, BC V7B 1C3.

#### **I. SUBSIDIARY INFORMATION**

Information not required for an annual report.

### **ITEM 11 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **A. QUANTITATIVE INFORMATION ABOUT MARKET RISK**

##### **(a) Financial Risk Management**

Financial instruments of the company consist primarily of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt. Financial instruments of the company also include derivatives which the company uses to reduce its exposure to currency and price risk associated with its revenues, energy costs and long-term debt.

The company has exposure to risk from its financial instruments, specifically credit risk, market risk (including currency, price and interest rate risk) and liquidity risk.

##### **(i) Credit Risk**

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. This risk derives principally from the company's receivables from customers and derivative counterparties.

## Accounts Receivable

The company is exposed to credit risk on accounts receivable from its customers who are mainly in the newspaper publishing, commercial printing and paper manufacturing businesses. The company manages its credit risk principally through credit policies, which include the analysis of the financial positions of its customers and the regular review of their credit limits. The company also subscribes to credit insurance for substantially all of its receivables, periodically purchases accounts receivable puts on certain customers, and obtains bank letters of credit for some export market customers.

Aging of receivables were as follows:

|                                                     | Successor          |          |
|-----------------------------------------------------|--------------------|----------|
|                                                     | As at December 31, |          |
|                                                     | 2014               | 2013     |
| Trade receivables, gross                            |                    |          |
| Current                                             | \$ 88.6            | \$ 96.3  |
| Past due 1-30 days                                  | 2.9                | 7.5      |
| Past due 31-90 days                                 | 1.1                | 1.2      |
| Past due over 90 days                               | 9.5                | 1.4      |
|                                                     | 102.1              | 106.4    |
| Allowance for doubtful accounts                     | (2.3)              | (1.8)    |
| Trade receivables, net                              | 99.8               | 104.6    |
| Other receivables, including sales tax recoverables | 11.1               | 11.9     |
| Accounts receivable                                 | \$ 110.9           | \$ 116.5 |

The movement in the allowance for doubtful accounts in respect of trade receivables were as follows:

|                                  | Successor          |        |
|----------------------------------|--------------------|--------|
|                                  | As at December 31, |        |
|                                  | 2014               | 2013   |
| Balance, beginning of period     | \$ 1.8             | \$ 2.2 |
| Increase (decrease) in provision | 0.5                | (0.4)  |
| Balance, end of period           | \$ 2.3             | \$ 1.8 |

## Derivatives

The company is also exposed to credit risk with counterparties to the company's derivative financial instruments. The credit risk arises from the potential for a counterparty to default on its contractual obligations, and is limited to those contracts where the company would incur a cost to replace a defaulted transaction. The company manages this risk by diversifying through counterparties that are of strong credit quality, normally major financial institutions.

### (ii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates will affect the company's cash flows or the value of its financial instruments (e.g., fixed interest long-term debt).

### Currency risk

For the year ended December 31, 2014, the company was exposed to the risk that future cash flows will fluctuate as substantially all of the company's sales and accounts receivable are denominated in U.S. dollars, while only a portion of its costs and payables were denominated in or referenced to U.S. dollars. The company was also exposed to the fluctuations in the fair value of its debt denominated in U.S. dollars. The company used foreign currency options and forward contracts to partially hedge trade receivables and anticipated future sales denominated in foreign currencies as well as U.S. dollar denominated debt.

For the year ended December 31, 2014, the company's hedging policy for anticipated sales and accounts receivable included 0% to 67% of 0- to 12-month and 0% to 25% of 13- to 24-month U.S. dollar net exposure. Hedges were layered in over time, increasing the portion of sales or accounts receivable hedged as it gets closer to the expected date of the sale or collection of the accounts receivable. The company's hedging policy for its U.S. dollar denominated debt includes 0% to 60% of U.S. dollar net exposure. Future U.S. dollar revenues also provide a partial natural hedge for U.S. dollar denominated debt.

## Price risk

The company's policy allows for hedges of newsprint and pulp to be placed on anticipated sales, and hedges of old newsprint to be placed on anticipated purchases and allows for anticipated purchases at 0% to 70% of 0- to 12-month, 0% to 60% of 13- to 24-month and 0% to 30% of 25- to 36-month of the net exposure for oil and natural gas.

The following table is a sensitivity analysis for product prices, foreign exchange and certain input costs:

| (In millions of dollars, except per share amounts)                   | Adjusted<br>EBITDA <sup>1</sup> | Net earnings <sup>2</sup> | Earnings<br>per share |
|----------------------------------------------------------------------|---------------------------------|---------------------------|-----------------------|
| <b>Product prices<sup>3</sup></b>                                    |                                 |                           |                       |
| A US\$10 per tonne change in the sales price of:                     |                                 |                           |                       |
| Specialty printing papers                                            | \$ 8                            | \$ 6                      | \$ 0.39               |
| Newsprint                                                            | 4                               | 3                         | 0.22                  |
| Pulp                                                                 | 4                               | 3                         | 0.22                  |
| <b>Foreign exchange<sup>4</sup></b>                                  |                                 |                           |                       |
| A US\$0.01 change in the U.S. dollar relative to the Canadian dollar | 8                               | 6                         | 0.39                  |
| <b>Energy cost sensitivity<sup>5</sup></b>                           |                                 |                           |                       |
| A 5% change in the price of:                                         |                                 |                           |                       |
| Natural gas and oil – direct purchases                               | 1                               | 1                         | 0.08                  |
| Electricity – direct purchases                                       | 8                               | 6                         | 0.39                  |
| <b>Freight cost sensitivity</b>                                      |                                 |                           |                       |
| A US\$5/bbl change in the price of West Texas Int. (WTI) Oil         | 3                               | 2                         | 0.16                  |
| <b>Fibre sensitivity<sup>5</sup></b>                                 |                                 |                           |                       |
| A US\$5 per unit change in the price of:                             |                                 |                           |                       |
| Wood chips (bone dry tonnes)                                         | 9                               | 7                         | 0.47                  |

1 Refer to *Non-GAAP Measures*.

2 Based on an expected long-term tax rate of 26%.

3 Based on annualized sales of Q4 2014 and foreign exchange rate of US\$0.88.

4 Based on Q4 2014 annualized net cash flows and a movement to US\$0.89 from US\$0.88 and excluding our hedging program and the impact of the translation of U.S. dollar denominated debt.

5 Based on Q4 2014 annualized consumption levels and an exchange rate of US\$0.88.

## Interest rate risk

The fair value of the company's fixed-rate debt or the future cash flows of variable-rate debt or fixed-to-floating interest swaps may fluctuate because of changes in market interest rates. The company's policy is to keep the majority of its term debt on a fixed-rate basis, but to allow for the placing of some fixed-to-floating swaps at rates considered acceptable.

## (iii) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due over the next 12 to 24 months, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The company's principal cash requirements are for interest payments on its debt, capital expenditures and working capital needs. The company uses its operating cash flows, ABL Facility and cash balances to maintain its liquidity. Internal forecasts are regularly prepared that include earnings, capital expenditures, cash flows, cash or revolver drawings, and sensitivities for major assumptions. The internal forecasts include borrowing base availability and

covenant compliance. The company also monitors the maturities of its long-term debt and assesses refinancing costs and risks in deciding when to refinance debt in advance of its maturity.

**(b) Revenue Risk Management Instruments**

Foreign currency options and forward contracts outstanding to sell U.S. dollars were as follows:

| Term                    | Options            |                         |                 |                         |
|-------------------------|--------------------|-------------------------|-----------------|-------------------------|
|                         | Purchased US\$ put |                         | Sold US\$ call  |                         |
|                         | Notional amount    | Average rate US\$/CDN\$ | Notional amount | Average rate US\$/CDN\$ |
| As at December 31, 2014 |                    |                         |                 |                         |
| 0 to 11 months          | \$ 105.0           | 0.9082                  | \$ 105.0        | 0.8562                  |

At period-end exchange rates, the net amount the company would incur to settle the above contracts and options is \$2.0 million (December 31, 2013 - \$nil). At December 31, 2014, purchased US dollar put options and sold US dollar call options are marked to market, and the related gains and losses are recognized in other income.

At December 31, 2014, commodity swap agreements are outstanding to fix the sales price of 500 metric tonnes of NBSK pulp within the next month. These contracts are reported at their fair value which was \$nil at December 31, 2014 (December 31, 2013 - \$nil), with related gains and losses recognized in other income.

**(c) Cost Risk Management Instruments**

| Term                    | Options       |                       |               |                       |
|-------------------------|---------------|-----------------------|---------------|-----------------------|
|                         | Sold          |                       | Purchased     |                       |
|                         | GJ (millions) | Average rate CDN\$/GJ | GJ (millions) | Average rate CDN\$/GJ |
| As at December 31, 2014 |               |                       |               |                       |
| 0 to 3 months           | 0.2           | \$ 3.55               | 0.2           | \$ 4.85               |

As at December 31, 2014, commodity options are outstanding to fix the sales price of 180,000 Gigajoules of natural gas within the next three months. These contracts are reported at their fair value which was negative \$0.1 at December 31, 2014 (December 31, 2013 - \$nil), with related gains and losses recognized in other income.

**B. QUALITATIVE INFORMATION ABOUT MARKET RISK**

See Item 11A.

**C. INTERIM PERIODS**

This disclosure item is not applicable.

**ITEM 12 DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Information not required for an annual report.

## **PART II**

### **ITEM 13     DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

#### **A.         INDEBTEDNESS**

There has been no default in the payment of principal or interest on our outstanding indebtedness since the date of filing of our last annual report on Form 20-F.

#### **B.         DIVIDENDS**

No dividends are in arrears.

### **ITEM 14     MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

- A.         There have been no material modifications to the instruments defining the rights of holders of any class of registered securities since the date of filing of our last annual report on Form 20-F.
- B.         This disclosure item is not applicable.
- C.         This disclosure item is not applicable.
- D.         This disclosure item is not applicable.
- E.         This disclosure item is not applicable.

### **ITEM 15     CONTROLS AND PROCEDURES**

#### **A.         DISCLOSURE CONTROLS AND PROCEDURES**

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. The evaluation was conducted under the supervision and with the participation of management, including the chief executive officer and chief financial officer, as of December 31, 2014. Based on the evaluation, our chief executive officer and chief financial officer concluded that such disclosure controls and procedures – as defined in Canada under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, and in Rules 13a-15(e) and 15d-15(e) promulgated under the United States Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act") – are effective as at December 31, 2014.

It should be noted that while our disclosure controls and procedures are designed to provide a reasonable level of assurance of achieving their objectives, our chief executive officer and chief financial officer do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

#### **B.         INTERNAL CONTROL OVER FINANCIAL REPORTING**

Section 404 of the United States *Sarbanes-Oxley Act, Management Assessment of Internal Controls* ("Section 404"), continues to require that management (a) have the responsibility for establishing and maintaining an adequate internal control structure and procedure for financial reporting, and (b) assess and report on the effectiveness of internal control over financial reporting annually. As of December 31, 2014, management has assessed the effectiveness of our internal control over financial reporting. Based on this assessment, management has determined our internal control over financial reporting was effective as of December 31, 2014, and issued Management's Report on Financial Statements and Assessment of Internal Control over Financial Statements dated March 3, 2015 to that effect. This document is included in Item 17.

## **C. REPORT OF THE INDEPENDENT PUBLIC ACCOUNTING FIRM**

Included in Item 17.

## **D. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes in our internal control over financial reporting during the period ended December 31, 2014 that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## **ITEM 16A AUDIT COMMITTEE FINANCIAL EXPERT**

The Board of Directors has determined that Ms Jill Leversage, an individual serving on the audit committee of our Board of Directors, is an audit committee financial expert and is independent as defined in Item 16A of Form 20-F under the Securities Exchange Act of 1934, as amended.

## **ITEM 16B CODE OF ETHICS**

We have a Code of Corporate Ethics and Behaviour that applies to directors, executives and employees, and is reviewed and committed to by salaried employees each year. Breaches of this code can be reported through an anonymous phone line or other methods, but no reports were received in 2014. No waivers from the Code of Corporate Ethics and Behavior were granted in the fiscal year ended December 31, 2014. A copy of the current Code of Corporate Ethics and Behaviour can be found at our website [www.catalystpaper.com](http://www.catalystpaper.com).

Our governance practices meet or exceed the effective governance guidelines of the Toronto Stock Exchange.

## **ITEM 16C PRINCIPAL ACCOUNTANT FEES AND SERVICES**

During the last two years, we paid the following fees to our external auditors:

|                        | <b>Period Ending December 31,</b> |             |
|------------------------|-----------------------------------|-------------|
|                        | <b>2014</b>                       | <b>2013</b> |
| (a) Audit Fees         | \$ 400,000                        | \$ 394,500  |
| (b) Audit Related Fees | 13,000                            | 23,500      |
| (c) Tax Fees           | 100,000                           | 84,000      |
| Total                  | \$ 513,000                        | \$ 502,000  |

The services rendered in connection with "Audit Related Fees" in 2014 consisted primarily of the auditor's involvement with the audit of our pension plan and subsidiary financial statements. The services rendered in connection with "Tax Fees" consisted primarily of tax compliance services.

The Audit Committee has adopted policies and procedures for the pre-approval of audit, tax and other non-audit services provided by the independent registered public accounting firm. These policies and procedures are summarized below.

The terms of engagement and scope of the annual audit of the financial statements are agreed to by the Audit Committee in advance of the engagement of the independent registered public accounting firm in respect of the annual audit. The Audit Committee approves the audit fees.

The independent registered public accounting firm are not permitted to provide non-audit services that would compromise their independence or violate any laws or regulations that would affect their appointment as independent registered chartered accountants. They are eligible for selection to provide non-audit services only to the extent that their skills and experience make them a logical supplier of the services. The Audit Committee must pre-approve the provision of all non-audit services by the independent registered public accounting firm and will consider regulatory guidelines in determining the scope of permitted services. The Audit Committee has pre-approved non-audit services in respect of individual assignments for permitted services that meet certain criteria. Assignments outside these parameters must be specifically pre-approved by the Audit Committee in advance of commissioning the work.

In 2014, our Audit Committee approved all audit, tax and other non-audit services performed by our independent registered public accounting firm.

**ITEM 16D EXEMPTIONS FROM LISTING STANDARDS FOR AUDIT COMMITTEES**

This disclosure item is not required in an annual report.

**ITEM 16E PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND ITS AFFILIATES**

This disclosure item is not applicable.

**ITEM 16F CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

No change.

**ITEM 16G CORPORATE GOVERNANCE**

This disclosure item is not applicable.

**ITEM 16H MINE SAFETY DISCLOSURE**

This disclosure item is not applicable.

**PART III**

**ITEM 17 FINANCIAL STATEMENTS**

The following financial statements have been filed as part of this annual report.

**Reports of Independent Registered Public Accounting Firm and Consolidated Financial Statements of Catalyst Paper Corporation**

Audited Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as at December 31, 2014 and December 31, 2013

Consolidated Statements of Earnings (Loss) for the years ended December 31, 2014 and 2013, the three-months ended December 31, 2012, and the nine-months ended September 30, 2012

Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2014 and 2013, the three-months ended December 31, 2012, and the nine-months ended September 30, 2012

Consolidated Statements of Equity (Deficiency) for the years ended December 31, 2014 and 2013, the three-months ended December 31, 2012, and the nine-months ended September 30, 2012

Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013, the three-months ended December 31, 2012, and the nine-months ended September 30, 2012

Consolidated Statements of Business Segments for the years ended December 31, 2014 and 2013, the three-months ended December 31, 2012, and the nine-months ended September 30, 2012

Notes to the Consolidated Statements

## **ITEM 18 FINANCIAL STATEMENTS**

See Item 17.

## **ITEM 19 EXHIBITS**

- 1.1 Articles of Catalyst Paper Corporation (3)
- 1.2 Bylaws of Norske Skog Canada Limited. (2)
- 4.1 Chip Supply Agreement dated November 19, 1992 between Crown Forest Industries Limited and Riverside Forest Products Limited, as assigned July 6, 2000 and assigned January 1, 2001 (current parties Catalyst Paper and Tolko Industries Ltd.). (1)
  - 4.1.1 Amending Letter dated August 23, 2005 between NorskeCanada and Riverside Forest Product Limited relating to Chip Supply Agreement referred to in Exhibit 4.1 above (current parties Catalyst Paper and Tolko Industries Ltd.). (4)
- 4.2 Amended and Restated Chip and Pulplog Supply Agreement dated as of June 23, 1997 between 3264891 Canada Limited, 3264912 Canada Limited and TimberWest Forest Limited, as amended January 1, 1999 (Current parties Catalyst Paper and TimberWest Forest Corp. and TimberWest Forest Company). (1)
  - 4.2.1 Amendment dated October 3, 2002 to the Amended and Restated Chip and Pulplog Supply Agreement referred to in Exhibit 4.2 above. (1)
  - 4.2.2 Amendment dated January 1, 2008 to the Amended and Restated Chip and Pulplog Supply Agreement referred to in Exhibit 4.2 above. (4)
  - 4.2.3 Log Supply Option Agreement dated January 1, 2008 between Catalyst Paper, TimberWest Forest Corp. and TimberWest Forest Company amending agreement referred to in Exhibit 4.2 above. (4)
- 4.3 Amended and Restated Timber Harvesting Management Agreement dated as of January 1, 1999 between Fletcher Challenge Canada Limited, TimberWest Forest Corp. and TimberWest Forest Company (current parties Catalyst Paper Corporation, TimberWest Forest Corp and TimberWest Forest Company Partnership). (1)
  - 4.3.1 Amendment dated January 1, 2008 to Amended and Restated Timber Harvesting Management Agreement referred to in Exhibit 4.3 above. (4)
- 4.4 Chip and Log Supply Agreement dated as of June 8, 1998 between MacMillan Bloedel Limited and MB Paper Limited (current parties Western Forest Products Inc. and Catalyst Paper Corporation). (2)
  - 4.4.1 Amendment dated March 28, 2006 to Chip and Log Supply Agreement referred to in Exhibit 4.4 above. (4)
  - 4.4.2 Amendment and Waiver dated October 10, 2006 to Chip and Log Supply Agreement referred to in Exhibit 4.4 above. (4)
  - 4.4.3 Amendment dated December 5, 2008 to Chip and Log Supply Agreement referred to in Exhibit 4.4 above. (4)
  - 4.4.4 Amendment dated January 1, 2011 to Chip and Log Supply Agreement referred to in Exhibit 4.4 above. (9)
- 4.5 Chip and Sawlog Supply Agreement dated September 8, 1980 between British Columbia Forest Products Limited and Doman Industries Limited. (4)
  - 4.5.1 Amendment dated December 2, 2002 to Chip and Sawlog Supply Agreement referred to in Exhibit 4.5 above. (4)

- 4.5.2 Amendment dated November 2, 2004 to Chip and Sawlog Supply Agreement referred to in Exhibit 4.5 above. (4)
- 4.5.3 Amendment dated February 1, 2005 to Chip and Sawlog Supply Agreement referred to in Exhibit 4.5 above. (4)
- 4.5.4 Amendment dated June 27, 2005 to Chip and Sawlog Supply Agreement referred to in Exhibit 4.5 above. (4)
- 4.5.5 Amendment dated October 10, 2006 to Chip and Sawlog Supply Agreement referred to in Exhibit 4.5 above. (4)
- 4.5.6 Amendment dated November 19, 2013 to Chip and Sawlog Supply Agreement referred to in Exhibit 4.5 above. (9)
- 4.5.7 Amendment dated December 15, 2014 to Chip and Sawlog Supply Agreement referred to in Exhibit 4.5 above. (9)
- 4.6 Chip and Pulplog Supply Agreement dated July 1, 2004 between Teal Jones and Norske Canada (current parties Teal Jones and Catalyst Paper). (4)
- 4.7 Restructuring and Support Agreement, entered into on March 12, 2012 among Catalyst Paper Corporation, certain of its subsidiaries and certain holders of its 2014 Notes and 2016 Notes. (6).
- 4.8 Indenture, dated as of September 13, 2012, governing the company's issuance of secured debentures, notes, bonds or other evidences of indebtedness in an unlimited aggregate principal amount to be issued from time to time pursuant to the Indenture, among Catalyst, the subsidiary guarantors and Wilmington Trust, National Association, as trustee. (7)
- 4.9 First Supplemental Indenture dated as of September 13, 2012, among the company, the subsidiary guarantors named therein and Wilmington Trust, National Association, as trustee governing the terms of the company's PIK Toggle Senior Secured Notes due October 30, 2017. (7)
- 4.10 Second Supplemental Indenture dated as of September 13, 2012, among the company, the subsidiary guarantors named therein and Wilmington Trust, National Association, as trustee governing the terms of the company's Floating Rate Senior Secured Notes due September 13, 2016. (7)
- 4.11. Credit Agreement dated as of September 13, 2012 among the company, certain lenders party thereto, Canadian Imperial Bank of Commerce as Administrative Agent and Co-Collateral Agent with Wells Fargo Capital Finance Corporation Canada. (8)
- 4.11.1 First Amending Agreement to Credit Agreement dated as of March 20, 2014 among the company, certain lenders party thereto, Canadian Imperial Bank of Commerce as Administrative Agent and Co-Collateral Agent with Wells Fargo Capital Finance Corporation Canada. (9)
- 4.12 Credit Agreement dated as of March 20, 2014 among the company, certain lender parties thereto, Canadian Imperial Bank of Commerce as Administrative Agent and Co-Collateral Agent with Wells Fargo Capital Finance Corporation Canada.(9)
- 4.13 Employment agreement dated August 19, 2013 between Catalyst Paper Corporation and Joe Nemeth (9)
- 4.14 Employment agreement dated July 11, 2014 between Catalyst Paper Corporation and Len Posyniak (9)
- 4.15 Employment agreement dated April 2, 2014 between Catalyst Paper Corporation and Jim Bayles (9)
- 6.1 Statement explaining calculation of earnings per share (EPS) (9)
- 7.1 Statement explaining the calculation of any ratios in the report (9)

- 8.1 List of subsidiaries. (9)
- 12.1 Certification of CEO and CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (9)
- 13.1 Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (9)
- 15.1 Consolidated financial statements of the company as of December 31, 2013 and 2012 and for the three years ended December 31, 2013 (9)
- (9) Filed herewith.
- (8) Previously filed (No. 000-49751) on Form 6-K of Catalyst Paper Corporation on September 25, 2012.
- (7) Previously filed (No. 000-49751) on Form 6-K of Catalyst Paper Corporation on September 21, 2012.
- (6) Previously filed (No. 000-49751) on Form 6-K of Catalyst Paper Corporation on March 13, 2012.
- (5) Previously filed (No. 000-49751) on Form 20-F of Catalyst Paper Corporation on May 12, 2010.
- (4) Previously filed (No. 000-49751) on Form 20-F of Catalyst Paper Corporation on May 14, 2009.
- (3) Previously filed with registration statement (No. 000-49751) on Form 20-F of Catalyst Paper Corporation on March 19, 2013.
- (2) Previously filed with registration statement (No. 333-82406) on Form F-4 of Norske Skog Canada Limited on March 1, 2002.
- (1) Previously filed with the registration statement (No. 333-82406) on Form F-4 of Norske Skog Canada Limited on March 1, 2002. Confidential information has been omitted and has been filed separately with the Securities and Exchange Commission.

## SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing this Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

CATALYST PAPER CORPORATION

By: \\s\\ Joe Nemeth  
Name: Joe Nemeth  
Title: President and Chief Executive Officer

Date: March 4, 2015