

A photograph of a paper mill interior, featuring large rolls of paper and industrial machinery. The entire image is overlaid with a semi-transparent red filter. The text is centered in the upper half of the image.

Third Quarter 2011 Earnings Presentation

Presented by:

Kevin J. Clarke, President and CEO

Brian Baarda, Vice-President Finance and CFO

November 14, 2011

Forward-Looking Statements

The presentation and answers to questions today contain forward-looking statements. Forward-looking statements are statements that address or discuss activities, events or developments that we expect or anticipate may occur in the future and can be identified by the use of words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “likely”, “predict”, “estimate”, “forecast”, and similar words or phrases or the negative of such words or phrases. These forward-looking statements reflect our current beliefs, intentions or expectations based on certain assumptions and estimates, which could prove to be significantly incorrect, including 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 implement business strategies and pursue opportunities, expected cost of goods sold, expected component supply costs and constraints and expected foreign exchange and tax rates.

While considered reasonable by management, these forward-looking statements are inherently subject to known and unknown risks and uncertainties and other factors that could cause actual results or events to differ from historical or anticipated results or events. These risks, uncertainties and other factors include 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), product selling prices, 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), our ability to successfully obtain cost savings from our cost reduction initiatives, the effect of, or change in, environmental and other governmental regulations, labour relations, the availability of qualified personnel, legal proceedings, the effects of competition from domestic and foreign producers, our ability to implement business strategies and pursue opportunities, the risk of natural disaster and other factors beyond our control.

As a result, no assurance can be given that any of the events or results anticipated by such forward-looking statements will occur or, if they do occur, what benefit they will have on our operations or financial condition. Readers are cautioned not to place undue reliance on these forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.



Non-GAAP Measures

Except where otherwise indicated, the financial information in this presentation is determined on the basis of U.S. GAAP.

“EBITDA” is a non-GAAP measure, calculated as operating earnings (loss) plus depreciation and amortization and impairment. We focus on EBITDA as we believe this measure enables comparison of our results between periods without regard to debt service, income taxes, capital expenditure requirements, and impairment.

“EBITDA before restructuring costs”, “net earnings (loss) attributable to the Company before specific items”, and “net earnings (loss) per share attributable to the Company’s common shareholders before specific items” are non-GAAP measures. We use measures excluding specific items in evaluating our results between periods without regard to specific items that adversely or positively affect our EBITDA and net earnings (loss).

“Free cash flow” is a non-GAAP measure, calculated as EBITDA after capital expenditures, interest and taxes paid, and adjustments to reflect employee future benefit payments. The closest GAAP measure is cash provided by operating activities less cash used by investing activities. We report free cash flow as we believe it is useful for investors and other users to be aware of this measure so they can better assess our operating performance.



Changes in Accounting Policies

Effective January 1, 2010, we changed our policy on the classification of foreign exchange gains and losses on the ineffective portion of our U.S. dollar revenue risk management instruments, on the portion that is excluded from the assessment of hedge effectiveness, and on translation of working capital balances denominated in foreign currencies. The respective foreign exchange gains and losses previously recognized in *Sales* are now recognized in *Other income (expense)*. We continue to classify the effective portion of gains or losses on our previously designated U.S. dollar revenue risk management instruments in the same income statement line items as the hedged item in *Sales*. In addition, we also changed our policy on the classification of changes in the fair value of all commodity swap agreements not designated as hedges for accounting purposes that were previously recognized in *Sales* and *Cost of sales, excluding depreciation and amortization*. The changes in the fair value related to these instruments are now recognized in *Other income (expense)*.

We consider the new policies to be preferable as they increase the transparency of the economic hedging activity.

Prior period comparative information contained in this presentation has been restated to reflect these changes in accounting policies.



Q3 2011 Presentation Outline



- Business Overview and Outlook
- Financial Results

Q3 2011 Highlights

Financials

- Achieved \$27M in EBITDA
- \$30M improvement in free cash flow compared to prior quarter
- Sales revenues increased by 14% over prior quarter due to higher pulp and paper sales volumes and higher transaction prices for specialty papers
- \$151M impairment charge taken on Snowflake in accordance with US GAAP

Operations

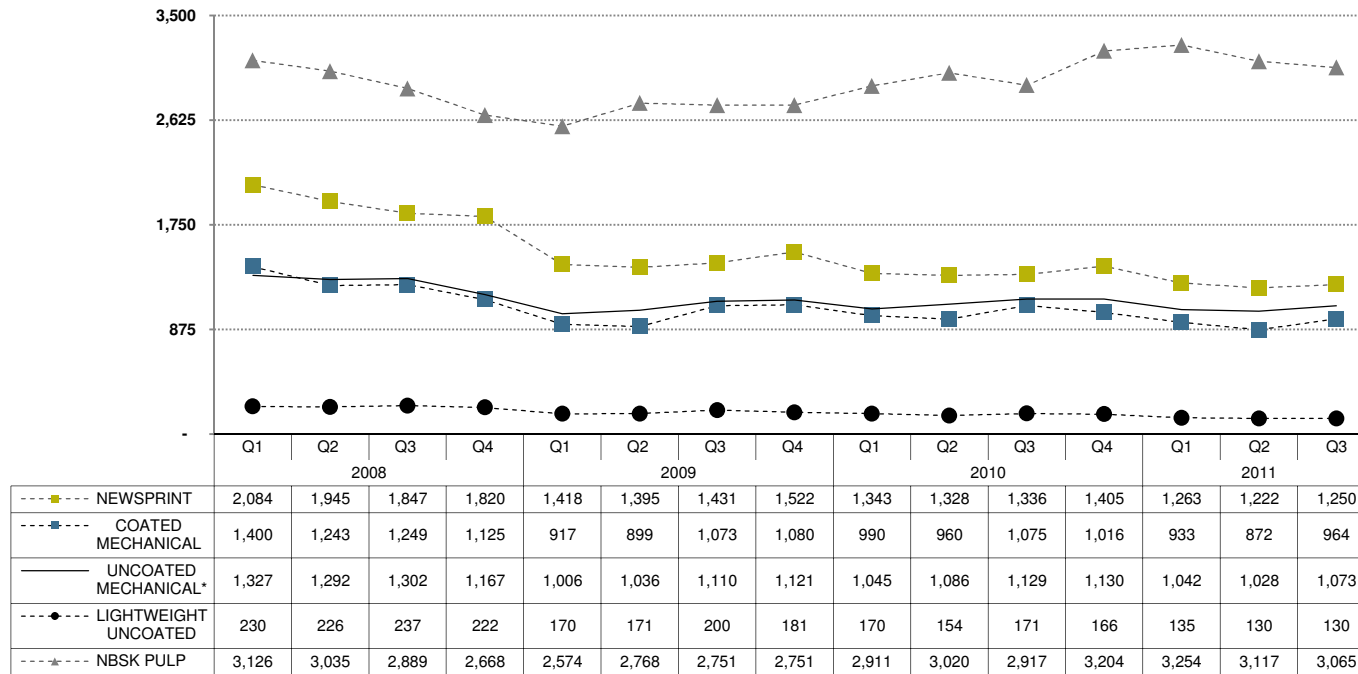
- Production up 32,200 tonnes over prior quarter which was marked by planned maintenance and fire-related outages
- Average delivered cash costs reduced \$83/tonne for specialty printing papers and \$41/tonne for newsprint compared to prior quarter
- Pulp expansion project on track bringing capacity to 1,120/tpd by year-end
- Green energy projects on budget and on time for federal funding envelope

Sales and Marketing

- Gained market share in all grade categories as Pacificote and Sage enable entry to new market segments and deeper position with existing accounts
- Extended preferred supplier position in directory, retail customer segments
- Partially implemented US\$30/st increase in coated and SC grades

North American Paper Demand and NBSK Pulp Shipments

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

We are growing share in declining markets



Challenges

- **Snowflake impairment and recovered paper pricing pressure**
 - Mill profitability negatively impacted by reduced newsprint demand and protracted rise in recovered paper pricing
 - ONP price down \$45/st in November provides relief in short-term; alternatives being explored to put mill on firmer financial footing long-term
- **Production curtailments**
 - Crofton PM1 remained idled reducing capacity by 35,300 tonnes
- **Safety, labour and work practices**
 - Collective agreements expire in 2012 at Crofton, Powell River, Distribution Centre
 - Safety results improved but more to be done; comprehensive safety improvement program implemented and remains mill priority in 2012
- **Business climate impacted by taxation**
 - Supreme Court of Canada heard Catalyst appeal of 2009 North Cowichan tax rate; decision expected in 6 to 12 months
 - Implementation of tax agreement continues with City of Powell River
 - Harmonized sales tax extinguished; \$11M in annualized potential cost impact expected in 2013



Outlook

- Weaker global economy and debt issues in Europe and North America fuel currency and commodity volatility; U.S. jobs recovery, consumer confidence and spending remains uncertain
- Continued volatility of Canadian dollar and higher input costs could impact Q4 earnings, cash flow and liquidity
- Slowdown in China and high global pulp inventories expected to put downward pressure on benchmark prices for NBSK
- Benchmark prices for mechanical printing papers expected to improve; announced US\$30/st increase on high-brites took effect October 1
- \$20M in capital spending for 2011 expected, including costs associated with Elk Falls equipment demolition and site preparation for next potential use; \$18M in federally funded projects expected to complete on time and on budget at Port Alberni and Powell River
- Capital restructuring review considers alternatives for 2014 and 2016 notes



Q3 2011 Financial Results

	2010	2011			
	Q4	Q1	Q2	Q3	LTM
<i>(\$millions, except per share amounts)</i>					
Sales	\$ 333.6	\$ 303.6	\$ 297.8	\$ 340.3	\$ 1,275.3
EBITDA	28.7	15.9	(3.9)	26.8	67.5
Restructuring costs	–	–	–	–	–
EBITDA before restructuring costs	\$ 28.7	\$ 15.9	\$ (3.9)	\$ 26.8	\$ 67.5
<i>EBITDA margin before restructuring costs</i>	<i>8.6%</i>	<i>5.2%</i>	<i>(1.3%)</i>	<i>7.9%</i>	<i>5.3%</i>
Net earnings (loss) attributable to the Company	\$ 9.6	\$ (12.9)	\$ (47.4)	\$ (205.7)	\$ (256.4)
Net earnings (loss) attributable to the Company before specific items	\$ 4.1	\$ (23.6)	\$ (46.9)	\$ (14.1)	\$ (80.5)
<i>Net earnings (loss) per share attributable to the Company's common shareholders</i>	\$ 0.02	\$ (0.03)	\$ (0.13)	\$ (0.54)	\$ (0.67)
<i>Net earnings (loss) per share attributable to the Company's common shareholders before specific items</i>	\$ 0.01	\$ (0.06)	\$ (0.12)	\$ (0.04)	\$ (0.21)
<i>Average F/X spot rate (USD/CAD)</i>	0.987	1.015	1.033	1.020	1.014
<i>Average effective F/X rate (USD/CAD)</i>	0.982	1.011	1.032	1.020	1.011



EBITDA Reconciliation – Q3 2011 vs. Q2 2011

<i>(\$millions)</i>	<u>EBITDA ⁽¹⁾</u>
Q2 2011 EBITDA ⁽¹⁾	\$ (3.9)
Restructuring costs	—
Q2 2011 EBITDA before specific items ⁽¹⁾	(3.9)
Paper prices	4.6
Pulp prices	(2.3)
Impact of CDN\$	3.2
Volume and mix	9.2
Furnish mix and costs	(1.8)
Power and fuel costs	1.9
Maintenance costs	5.9
Labour costs	3.5
Selling, general and administrative	(0.1)
Lower of cost or market impact on inventory, net of inventory change	6.9
Other, net	(0.3)
Q3 2011 EBITDA before restructuring costs ⁽¹⁾	26.8
Restructuring costs	—
Q3 2011 EBITDA ⁽¹⁾	\$ 26.8

⁽¹⁾ EBITDA and EBITDA before restructuring costs are non-GAAP measures.



Q3 2011 Free Cash Flow

(\$millions)	2010	2011			LTM
	Q4	Q1	Q2	Q3	
EBITDA before restructuring costs	\$ 28.7	\$ 15.9	\$ (3.9)	\$ 26.8	\$ 67.5
Restructuring costs	–	–	–	–	–
EBITDA	28.7	15.9	(3.9)	26.8	67.5
Interest expense, excluding amortization	(18.5)	(17.6)	(17.6)	(19.0)	(72.7)
Capital expenditures	(2.8)	(2.3)	(5.6)	(5.6)	(16.3)
Income taxes received (paid)	(0.2)	(0.3)	(0.1)	0.5	(0.1)
Employee future benefits, net of funding	(0.1)	(1.2)	(1.1)	(1.3)	(3.7)
Free cash flow	\$ 7.1	\$ (5.5)	\$ (28.3)	\$ 1.4	\$ (25.3)



Q3 2011 Liquidity

(\$millions)	2010	2011		
	Q4	Q1	Q2	Q3
	Prior ABL ⁽¹⁾	Prior ABL ⁽¹⁾	Amended ABL ⁽¹⁾	Amended ABL ⁽¹⁾
Borrowing base ⁽²⁾	\$ 152.4	\$ 174.1	\$ 134.3	\$ 167.3
Letters of credit	(23.4)	(25.5)	(28.1)	(27.7)
Net amount drawn	—	—	—	(31.5)
Minimum excess availability ⁽⁴⁾	(35.0)	(35.0)	—	—
Available to be drawn ⁽³⁾	\$ 94.0	\$ 113.6	\$ 106.2	\$ 108.1
Cash on hand	95.4	53.8	30.2	17.8
Total liquidity	\$ 189.4	\$ 167.4	\$ 136.4	\$ 125.9

- (1) On May 31, 2011 the company amended the ABL. Amendments include a reduction in the available credit from \$330 million to \$175 million, removal of Snowflake's fixed assets from the borrowing base, and extension of maturity to May 31, 2016.
- (2) Q3 2011 includes a reserve of \$0.4 million for unpaid property taxes (\$4.5 million for Q2 2011, \$4.4 million for Q1 2011 and Q4 2010). Q4 2010 also includes a reserve of \$8.3 million for outstanding 8.625% senior notes in excess of US\$17.7 million.
- (3) Our ABL facility is subject to certain financial covenants as disclosed in our consolidated financial statements for the three and six months ended June 30 2011, in note 11, *Long-term debt*.
- (4) Amended ABL contains covenants to maintain minimum fixed charge ratio of 1.1/1.0 if excess availability falls below \$22 million.



Questions?

