

A photograph of a paper mill with large rolls of paper and machinery, overlaid with a semi-transparent red filter. The text is centered on the left side of the image.

First Quarter 2011 Earnings Presentation

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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 specific items”, “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), net*. 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), net*.

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.






Q1 2011 Presentation Outline



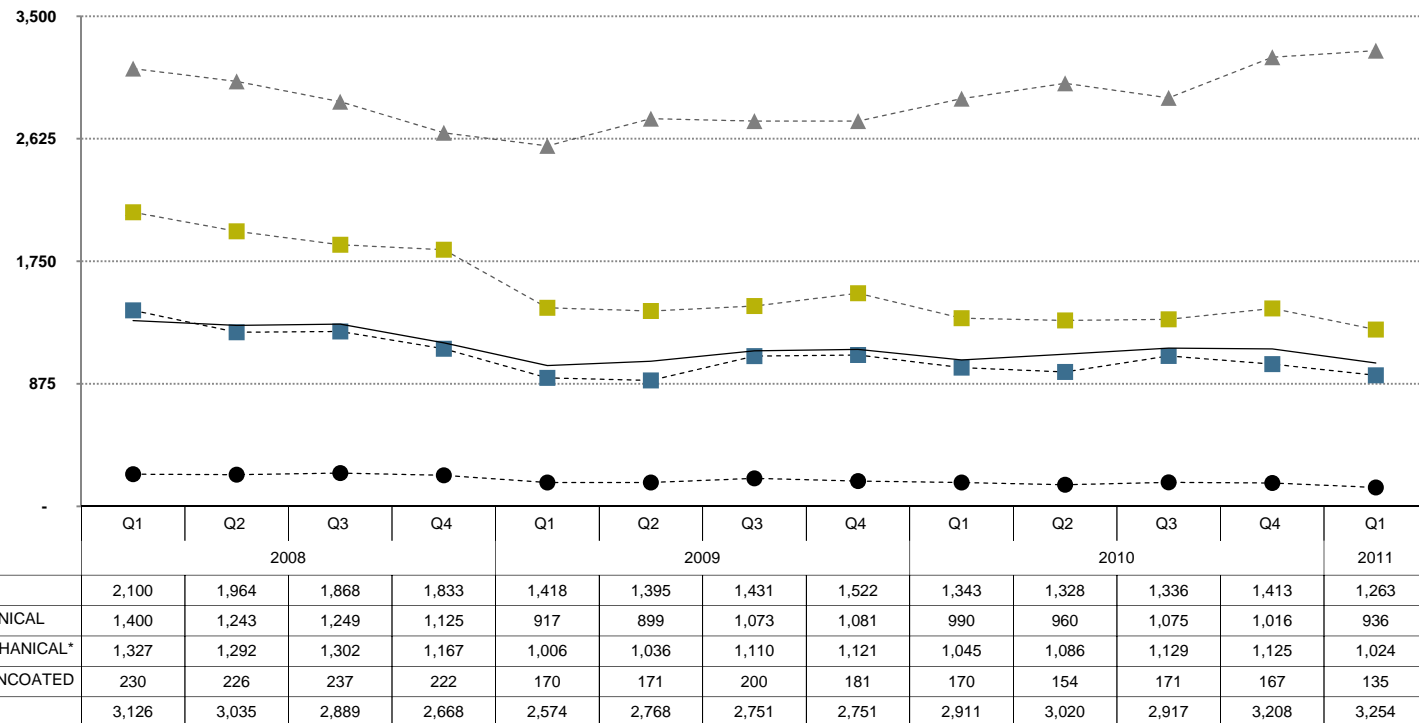
- Business Overview and Outlook
- Financial Results

Q1 2011 Highlights

Financials <ul style="list-style-type: none">- Achieved \$16M in EBITDA- Early redemption of US\$26 million of our 8.625% senior notes due June 2011 will result in savings of \$1 million in interest expense in 1H- Achieved \$5 million in paper and pulp price increases over Q4 2010	
Operations <ul style="list-style-type: none">- Pulp maintenance completed in Q1 and now in production; order book is sold through to July 2011	
Sales and Marketing <ul style="list-style-type: none">- Continued to innovate and extend product line with a successful trial of uncoated free sheet- Aggressive marketing of Pacificote and Sage continued to gain entry to new market segments and to deepen position with existing accounts	

North American Paper Demand and NBSK Pulp Shipments

North American Paper Demand and NBSK Pulp Shipments
(in thousands of metric tonnes)
Source: PPC



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



Q1 2011 Challenges

Operations	<ul style="list-style-type: none">• Crofton No.1 paper machine remained idled reducing capacity by 34,500 tonnes
Labour Costs and Work Practices	<ul style="list-style-type: none">• Safety performance falls short of goal; improvement program underway
Property Taxation	<ul style="list-style-type: none">• Continued to implement joint infrastructure agreement at Powell River and filed Supreme Court of Canada legal appeal on North Cowichan 2009 tax rates

Outlook

- Global growth expected to continue in 2011 driven particularly by China and India; U.S. economic recovery will depend on rebound in consumer confidence and spending and employment recovery.
- Strong Canadian dollar and higher input costs (ONP, fossil fuels, and chemicals) will put pressure on operating and net earnings, cash flows and liquidity.
- Benchmark prices for mechanical printing papers expected to improve through 2011; April 1 price increases of US\$60/st on SC paper and US\$40/st on coated paper are being implemented. We announced a US\$40/st price increase on high bright and super bright paper grades effective June 1, 2011. We also announced a US\$70/st directory price increase on our non-contract customers effective July 1, 2011.
- Benchmark prices for NBSK pulp expected to increase in Q2 supported by steady demand from global pulp inventories.
- \$25M in capital spending for 2011 expected in addition to \$18M in federally funded energy projects at Port Alberni and Powell River.
- April 18th Snowflake fire destroyed approximately 11,000 tonnes of ONP. Lost inventory, downtime and repairs is estimated at approximately \$4 million; loss is within \$5 million insurance deductible level.
- Q2 expected to be heavily impacted by two major planned maintenance shutdowns.
- Mid-term strategies continue to focus on product development, operational efficiency, innovation and cash management.



Q1 2011 Financial Results

	2010			2011	LTM
	Q2	Q3	Q4	Q1	
<i>(\$millions, except per share amounts)</i>					
Sales	\$ 299.4	\$ 322.3	\$ 333.6	\$ 303.6	\$ 1,258.9
EBITDA	(0.4)	34.2	28.7	15.9	78.4
Restructuring costs	10.9	0.3	–	–	11.2
EBITDA before specific items	\$ 10.5	\$ 34.5	\$ 28.7	\$ 15.9	\$ 89.6
<i>EBITDA margin before specific items</i>	3.5%	10.7%	8.6%	5.2%	7.1%
Net earnings (loss) attributable to the Company	\$ (368.4)	\$ 6.0	\$ 9.6	\$ (12.9)	\$ (365.7)
Net earnings (loss) attributable to the Company before specific items	\$ (43.9)	\$ (9.6)	\$ 4.1	\$ (23.6)	\$ (73.0)
<i>Net earnings (loss) per share attributable to the Company's common shareholders</i>	\$ (0.96)	\$ 0.02	\$ 0.02	\$ (0.03)	\$ (0.95)
<i>Net earnings (loss) per share attributable to the Company's common shareholders before specific items</i>	\$ (0.11)	\$ (0.03)	\$ 0.01	\$ (0.06)	\$ (0.19)
<i>Average F/X spot rate (USD/CAD)</i>	0.973	0.962	0.987	1.015	0.984
<i>Average effective F/X rate (USD/CAD)</i>	0.949	0.948	0.982	1.011	0.972

EBITDA Reconciliation – Q1 2011 vs. Q4 2010

<i>(\$millions)</i>	<u>EBITDA ⁽¹⁾</u>
Q4 2010 EBITDA ⁽¹⁾	\$ 28.7
Restructuring costs	–
Q4 2010 EBITDA before specific items ⁽¹⁾	28.7
Paper prices	2.4
Pulp prices	2.6
Impact of CDN\$	(4.4)
Volume and mix	(4.9)
Furnish mix and costs	(5.6)
Maintenance costs	(1.7)
Lower of cost or market impact on inventory, net of inventory change	(1.9)
Selling, general and administrative	1.6
Other, net	(0.9)
Q1 2011 EBITDA before specific items ⁽¹⁾	15.9
Restructuring costs	–
Q1 2011 EBITDA ⁽¹⁾	\$ 15.9

⁽¹⁾ EBITDA and EBITDA before specific items are non-GAAP measures.



Q1 2010 Free Cash Flow

(\$millions)	2010			2011	LTM
	Q2	Q3	Q4	Q1	
EBITDA before specific items	\$ 10.5	\$ 34.5	\$ 28.7	\$ 15.9	\$ 89.6
Specific items	(10.9)	(0.3)	–	–	(11.2)
EBITDA	(0.4)	34.2	28.7	15.9	78.4
Interest expense, excluding amortization	(18.5)	(19.2)	(18.5)	(17.6)	(73.8)
Capital expenditures	(2.8)	(2.4)	(2.8)	(2.3)	(10.3)
Income taxes received (paid)	0.1	(0.4)	(0.2)	(0.3)	(0.8)
Employee future benefits, net of funding	(0.3)	(1.2)	(0.1)	(1.2)	(2.8)
Free cash flow	\$ (21.9)	\$ 11.0	\$ 7.1	\$ (5.5)	\$ (9.3)



Q1 2011 Liquidity

(\$millions)	2010			2011
	Q2	Q3	Q4	Q1
Borrowing base ⁽¹⁾	\$ 167.8	\$ 161.7	\$ 152.4	\$ 174.1
Letters of credit	(25.3)	(25.1)	(23.4)	(25.0)
Net amount drawn	—	—	—	—
Minimum excess availability	(35.0)	(35.0)	(35.0)	(35.0)
Available to be drawn ⁽²⁾	\$ 107.5	\$ 101.6	\$ 94.0	\$ 114.1
Cash on hand	100.8	82.3	95.4	53.8
Total liquidity	\$ 208.3	\$ 183.9	\$ 189.4	\$ 167.9

(1) Q4 2010 and Q1 2011 include a reserve of \$4.4 million for unpaid property taxes. Q4 2010 also includes a reserve of \$8.3 million for outstanding 8.625% senior notes in excess of US\$17.7 million.

(2) Our ABL Facility is subject to certain financial covenants as disclosed in our consolidated financial statements for the year ended December 31, 2010, in note 14, *Long-term debt*.



Questions?

