



# Catalyst Day 2011 Paper & Forest Products Investor Event

Presented by:

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May 26, 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 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 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 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.



# Presentation Outline

- Company Overview
- Industry Overview
- Q1 2011 Review
- Financial Overview
- Company Strategies and Priorities

## Company Overview

- Largest producer of mechanical printing papers in western North America
- Only producer of mechanical coated paper in western North America
- Only producer of soft calender (SC) paper in western North America
- Own a 100% recycled paper mill in Arizona

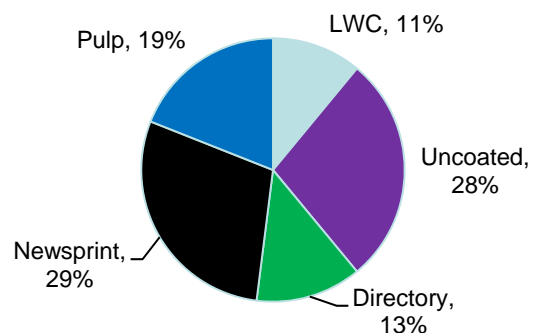


# Company Overview

| 2011 Capacity by Mill Location and Product Line |                          |                           |                   |           |           |                      |           |
|---|--------------------------|---------------------------|-------------------|-----------|-----------|----------------------|-----------|
|   |                          | Specialty printing papers |                   |           | Newsprint | Market pulp          | Total     |
| Mill location                                   | Number of paper machines | Uncoated mechanical       | Coated mechanical | Directory | Newsprint | NBSK pulp            |           |
| <b>Crofton, B.C.</b>                            | 3                        | -                         | -                 | 145,000   | 291,000   | 310,000 <sup>1</sup> | 746,000   |
| <b>Port Alberni, B.C.</b>                       | 2                        | -                         | 223,000           | 115,000   | -         | -                    | 338,000   |
| <b>Powell River, B.C.</b>                       | 3                        | 449,000                   | -                 | -         | 30,000    | -                    | 479,000   |
| <b>Snowflake, Arizona</b>                       | 2                        | 48,000                    | -                 | -         | 289,000   | -                    | 337,000   |
| <b>Total capacity (tonnes)</b>                  | 10                       | 497,000                   | 223,000           | 260,000   | 610,000   | 310,000              | 1,900,000 |
| <b>% of total capacity</b>                      |                          | 26%                       | 12%               | 14%       | 32%       | 16%                  | 100%      |

(1) Total pulp capacity is 370,000 tonnes, of which 310,000 tonnes are designated as market pulp with the remainder of 60,000 tonnes being consumed internally

**Product Sales Distribution <sup>(2)</sup>  
(% tonnes)**



(2) Sales distribution based on Q1 2011 sales volumes



# Company Overview

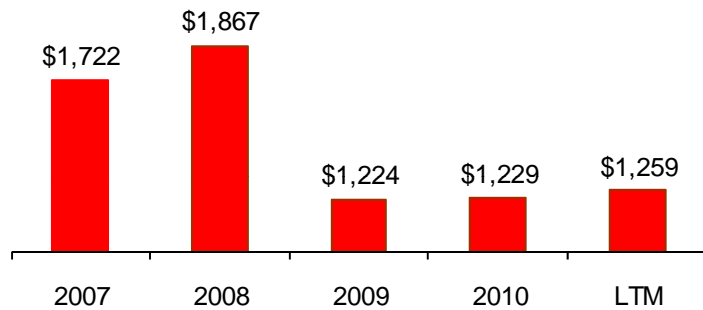
| 2011 PRODUCT APPLICATIONS        |   |   |  |                             |  |   |
|----------------------------------|---|---|--|-----------------------------|--|---|
| Segment                          | Specialty printing papers   |   |  |                             | Newsprint  | Market pulp   |
| Category                         | Uncoated mechanical   |   | Coated mechanical                                  | Directory                   | Newsprint  | NBSK pulp   |
|                                  | Soft-calendered   | Machine-finished  |  |                             |  |   |
| Brand names                      | Electracal<br>Electraprime  | Electrabrite<br>Electrabrite Lite<br>Electrastar<br>Electra Max   | Electracote<br>Electracote Brite<br>Pacificote     | Catalyst                    | Marathon   | Crofton Kraft   |
| Basis weight (g/m <sup>2</sup> ) | 45 – 52   | 45 – 74   | 47.3 – 74  | 29 – 40                     | 43 – 48.8  | n/a   |
| Applications                     | retail inserts, magazines, catalogues, flyers, direct mail, directories | retail inserts, magazines, supplements, flyers, direct mail, books, corporate communication books/manuals | retail inserts, magazines, catalogues, direct mail | telephone books, catalogues | newspapers, retail inserts, flyers, supplements, directories | tissue, printing and writing papers, specialty paper products, containerboard |
| Total capacity (tonnes)          | 497,000   |   | 223,000  | 260,000                     | 610,000  | 310,000   |
| % of total capacity              | 26%   |   | 12%  | 14%                         | 32%  | 16%   |



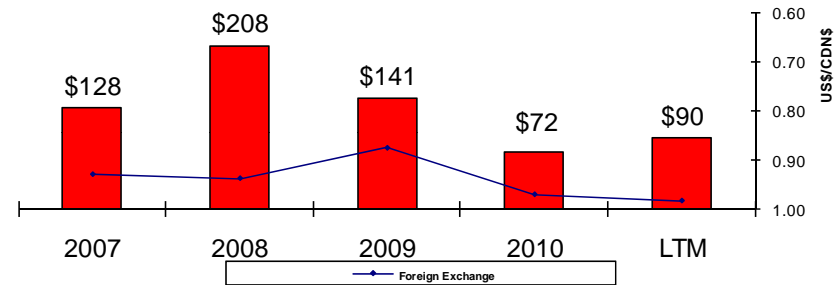
# Company Overview

## Financial Summary (\$millions)

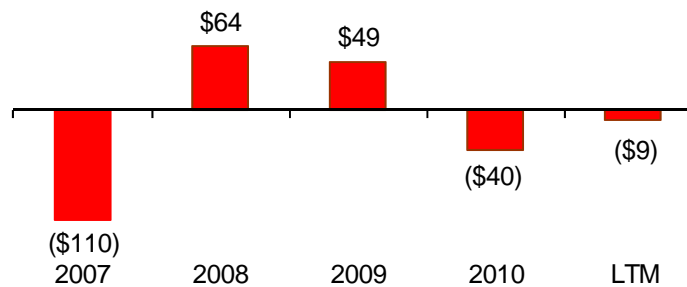
### Sales



### EBITDA before specific items



### Free cash flow



# Industry Overview

## Total North American (“NA”) Demand

|                      | North American Demand |               |               |               |               |
|----------------------|-----------------------|---------------|---------------|---------------|---------------|
|                      | 2008                  | 2009          | 2010          | 2011F         | 2012F         |
| Newsprint            | 7,765                 | 5,766         | 5,420         | 5,325         | 5,185         |
| Directory            | 915                   | 722           | 662           | 627           | 602           |
| Uncoated- High Gloss | 2,651                 | 2,189         | 2,246         | 2,304         | 2,345         |
| Uncoated- Standard   | 2,437                 | 2,084         | 2,160         | 2,190         | 2,213         |
| Coated               | 5,017                 | 3,971         | 4,041         | 4,141         | 4,183         |
| <b>Total Paper</b>   | <b>18,785</b>         | <b>14,732</b> | <b>14,529</b> | <b>14,587</b> | <b>14,528</b> |

|                      | Year-over Year % Change |               |              |             |              |
|----------------------|-------------------------|---------------|--------------|-------------|--------------|
|                      | 2008                    | 2009          | 2010         | 2011F       | 2012F        |
| Newsprint            | -12.0%                  | -25.7%        | -6.0%        | -1.8%       | -2.6%        |
| Directory            | -9.6%                   | -21.1%        | -8.3%        | -5.3%       | -4.0%        |
| Uncoated- High Gloss | -8.1%                   | -17.4%        | 2.6%         | 2.6%        | 1.8%         |
| Uncoated- Standard   | 4.7%                    | -14.5%        | 3.6%         | 1.4%        | 1.1%         |
| Coated               | -15.1%                  | -20.8%        | 1.8%         | 2.5%        | 1.0%         |
| <b>Total Paper</b>   | <b>-10.0%</b>           | <b>-21.6%</b> | <b>-1.4%</b> | <b>0.4%</b> | <b>-0.4%</b> |

- NA Paper demand is expected to increase 0.4% (58,000 tonnes) in 2011 vs. 2010.
- Newsprint and directory are expected to see smaller declines in 2011 versus 2010 but remain in a secular decline.
- Coated mechanical is expected to see higher growth in 2011 vs. 2010.

Source: PPPC February 2011



# Industry Overview

## Operating Rates

|                      | Adj. Operating Rate % |              |              |              |              |
|----------------------|-----------------------|--------------|--------------|--------------|--------------|
|                      | 2008                  | 2009         | 2010         | 2011         | 2012         |
| Newsprint            | 93.6%                 | 75.9%        | 91.9%        | 95.4%        | 93.8%        |
| Directory            | 95.3%                 | 87.1%        | 97.1%        | 89.9%        | 87.9%        |
| Uncoated- High Gloss | 93.4%                 | 86.4%        | 97.2%        | 95.7%        | 97.3%        |
| Uncoated- Standard   | 90.8%                 | 82.6%        | 93.0%        | 90.2%        | 91.5%        |
| Coated               | 87.7%                 | 80.2%        | 89.4%        | 98.9%        | 100.2%       |
| <b>Total Paper</b>   | <b>92.0%</b>          | <b>79.6%</b> | <b>92.3%</b> | <b>95.3%</b> | <b>95.1%</b> |

|                      | Excess Capacity (000's mt) |              |              |            |            |
|----------------------|----------------------------|--------------|--------------|------------|------------|
|                      | 2008                       | 2009         | 2010         | 2011       | 2012       |
| Newsprint            | 704                        | 2,357        | 693          | 370        | 495        |
| Directory            | 48                         | 118          | 21           | 76         | 90         |
| Uncoated- High Gloss | 158                        | 310          | 54           | 88         | 55         |
| Uncoated- Standard   | 277                        | 478          | 181          | 266        | 230        |
| Coated               | 613                        | 868          | 449          | 44         | (6)        |
| <b>Total Paper</b>   | <b>1,800</b>               | <b>4,131</b> | <b>1,398</b> | <b>844</b> | <b>864</b> |

- Operating rates for paper are expected to improve to 95.3% in 2011 compared to 92.3% in 2010.
- Excess capacity in newsprint has been significantly reduced from 2.3 million tonnes in 2009 leading to tighter market conditions in 2011.
- Coated mechanical operating rates are expected to be higher than 2010 while uncoated mechanical are expected to be slightly lower than 2010. This should lead to tight market conditions in the second half of 2011.

Source: PPPC February 2011



# Industry Overview Outlook

- Global growth expected to continue in 2011 driven by emerging markets; slow recovery of U.S. economy will depend on rate of rebound in consumer confidence and spending
- 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; US\$60/st increase on SC paper and US\$40/st increase on coated paper announced for April 1<sup>st</sup>; US\$40/st increase on our high bright and super bright paper grades announced for June 1; US\$70/st increase on directory paper for all non-contract customers for July 1.
- Benchmark prices for NBSK pulp expected to increase in Q2 2011 supported by steady demand from China, North America and Europe



# Q1 2011 Review Highlights

## Financials

- 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
- Achieved \$5 million in paper and pulp price increases over Q4 2010



## Operations

- Semi-annual pulp maintenance completed in Q1, order book is sold through to July 2011



## Sales and Marketing

- 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



## Q1 2011 Review Challenges

### Curtailments

Crofton No.1 paper machine remained idled reducing capacity by 34,500 tonnes

### Labour Costs and Work Practices

Safety performance falls short of goal; improvement program underway

### Property Taxation

Continued to implement the joint infrastructure agreement at Powell River and filed our Supreme Court of Canada legal appeal on the North Cowichan 2009 tax rates

# Financial Overview

## Q1 2011

*(\$millions, except per share amounts)*

|  | 2010       |           |          | 2011      | LTM        |
|--|------------|-----------|----------|-----------|------------|
|  | Q2         | Q3        | Q4       | Q1        |            |
| 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      |

# Financial Overview

## EBITDA Reconciliation – Q1 2011 vs. Q4 2010

| <i>(\$millions)</i>   | <u>EBITDA <sup>(1)</sup></u> |
|---|------------------------------|
| <b>Q4 2010 EBITDA <sup>(1)</sup></b>                                    | <b>\$ 28.7</b>               |
| Restructuring costs   | –                            |
| <b>Q4 2010 EBITDA before specific items <sup>(1)</sup></b>              | <b>28.7</b>                  |
| Paper prices  | 2.4                          |
| Pulp prices   | 2.6                          |
| Impact of Canadian dollar   | (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,<br>net of inventory change | (1.9)                        |
| Selling, general and administrative                                     | 1.6                          |
| Other, net  | (0.9)                        |
| <b>Q1 2011 EBITDA before specific items <sup>(1)</sup></b>              | <b>15.9</b>                  |
| Restructuring costs   | –                            |
| <b>Q1 2011 EBITDA <sup>(1)</sup></b>                                    | <b>\$ 15.9</b>               |

<sup>(1)</sup> EBITDA and EBITDA before specific items are non-GAAP measures.



# Financial Overview

## EBITDA Reconciliation – Q1 2011 vs. Q1 2010

| <i>(\$millions)</i>   | <u>EBITDA <sup>(1)</sup></u> |
|---|------------------------------|
| <b>Q1 2010 EBITDA <sup>(1)</sup></b>                                    | <b>\$ (16.2)</b>             |
| Restructuring costs   | 14.1                         |
| <b>Q1 2010 EBITDA before specific items <sup>(1)</sup></b>              | <b>(2.1)</b>                 |
| Paper prices  | 28.5                         |
| Pulp prices   | 10.7                         |
| Impact of Canadian dollar   | (11.8)                       |
| Volume and mix  | 14.7                         |
| Furnish mix and costs   | (11.7)                       |
| Maintenance costs   | (7.6)                        |
| Lower of cost or market impact on inventory,<br>net of inventory change | (3.2)                        |
| Selling, general and administrative                                     | 0.4                          |
| Other, net  | (2.0)                        |
| <b>Q1 2011 EBITDA before specific items <sup>(1)</sup></b>              | <b>15.9</b>                  |
| Restructuring costs   | –                            |
| <b>Q1 2011 EBITDA <sup>(1)</sup></b>                                    | <b>\$ 15.9</b>               |

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



# Financial Overview

## 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)           |
| <b>Free cash flow</b>                    | <b>\$ (21.9)</b> | <b>\$ 11.0</b> | <b>\$ 7.1</b> | <b>\$ (5.5)</b> | <b>\$ (9.3)</b> |

# Financial Overview

## Liquidity

| (\$millions)                         | 2010     |          |          | 2011     |
|--------------------------------------|----------|----------|----------|----------|
|                                      | Q2       | Q3       | Q4       | Q1       |
| Borrowing base <sup>(1)</sup>        | \$ 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 <sup>(2)</sup> | \$ 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*.



# Financial Overview

## Capitalization

(\$millions, except where otherwise stated)

|  | 2010<br>Dec 31  | 2011<br>Mar 31  |
|--|-----------------|-----------------|
| <b>Total debt</b>  |                 |                 |
| 8.625% senior notes, due June 2011 <sup>(1)</sup>  | \$ 26           | \$ –            |
| 7.375% senior notes, due March 2014 <sup>(2)</sup>   | 252             | 246             |
| 11.0% senior secured notes, due December 2016 <sup>(3)</sup>   | 279             | 272             |
| 11.0% Class B senior secured notes,<br>due December 2016 <sup>(4)</sup>  | 94              | 92              |
| Modification – difference in carrying value of 8.625%<br>and 11.0% senior secured notes on exchange <sup>(5)</sup> | 36              | 35              |
| Capital lease obligation   | 10              | 10              |
| Other non-recourse (PREI)  | 114             | 114             |
| <b>Total</b>   | <b>811</b>      | <b>769</b>      |
| <b>Shareholders' equity attributable to the Company</b>  | <b>423</b>      | <b>410</b>      |
| <b>Total capitalization attributable to the Company</b>  | <b>\$ 1,234</b> | <b>\$ 1,179</b> |
| <b>Cash</b>  | <b>\$ 95</b>    | <b>\$ 54</b>    |
| <b>Net debt ratio <sup>(6)</sup></b>   | <b>63%</b>      | <b>64%</b>      |

<sup>(1)</sup> US\$nil; 2010 - US\$26 million

<sup>(2)</sup> US\$250 million

<sup>(3)</sup> US\$280 million

<sup>(4)</sup> US\$110 million

<sup>(5)</sup> US\$38 million

<sup>(6)</sup> Net debt ratio equals net debt (i.e., total debt less cash), divided by net capitalization (i.e., shareholders' equity attributable to the Company and total debt less cash)



# Financial Overview

## EBITDA Sensitivities

(\$millions)

### Product prices

Impact of US\$10/t change in price of <sup>(1), (2)</sup>

Specialty printing papers

Newsprint

Pulp

|  | EBITDA |
|--|--------|
|  | 8      |
|  | 5      |
|  | 3      |
|  | 16     |

### Foreign exchange

Impact of \$0.01 change in US\$ <sup>(3)</sup>

6

### Energy cost sensitivity

Impact of 5% change in price of: <sup>(1), (4)</sup>

Natural gas and oil – direct purchases

Electricity – direct purchases

Coal

1

5

1

### Freight cost sensitivity

Impact of US\$5/bbl change in price of

West Texas Int. (“WTI”) Oil

3

### Fibre sensitivity

Impact of US\$5/unit change <sup>(1), (4)</sup>

Wood chips (Bdt)

ONP (ST)

8

2

(1) Based on a foreign exchange rate of US\$1.01

(2) Based on annualized sales of Q1 2011

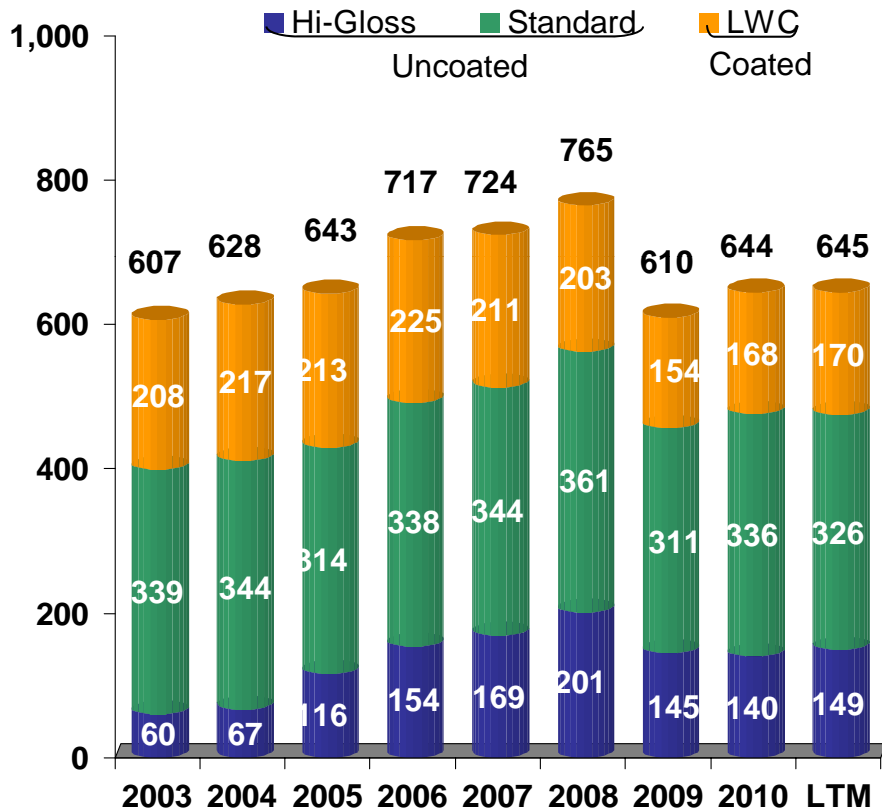
(3) Based on Q1 2011 annualized net cash flows and a foreign exchange movement to US\$1.02 from US\$1.01 and excluding our hedging program and the impact of the translation of U.S. dollar denominated debt

(4) Based on annualized Q1 2011 consumption levels

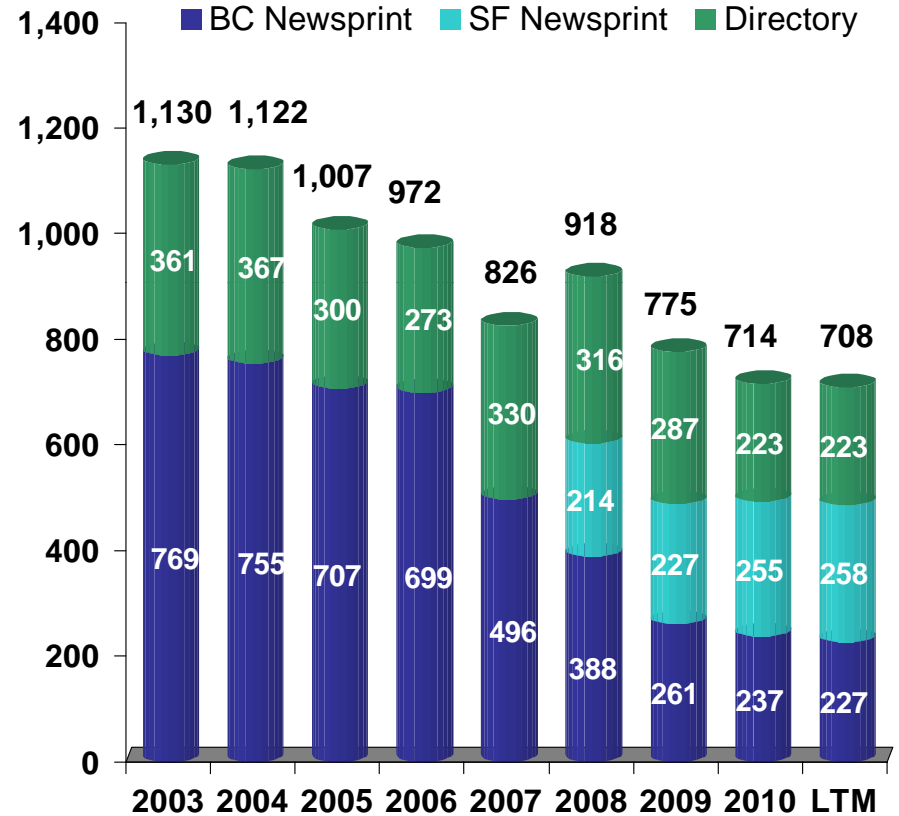
# Company Strategies and Priorities

## Grow Specialty Grades and Optimize Directory and Newsprint

Sales Volumes (MT 000's)



Sales Volumes (MT 000's)



2008 newsprint includes approximately 9 months of Snowflake volume post-acquisition  
 SF = Snowflake



# Company Strategies and Priorities

## 2011 Key Priorities

### Financial

- Continue to focus on free cash flow and liquidity
- Realize cost improvements associated with closure of facilities and SG&A reductions
- Develop a competitive labour solution based on industry precedent
- Improve capital structure

### Commercial

- Innovate and diversify product line
- Grow market share

### Employee and Community

- Significantly improve safety performance
- Enhance employee communication
- Continue to seek competitive business conditions in BC including joint municipal infrastructure agreements

### Environment

- Achieve conservation targets in water and energy
- Implement Forest Stewardship Council chain-of-custody certification at all Canadian mills
- Complete Green Transformation Program projects at Port Alberni and Powell River

