

A photograph of a paper mill with large rolls of paper and machinery, overlaid with a semi-transparent red filter. The scene is industrial and brightly lit.

# Second 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 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.

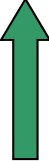
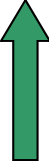
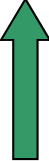


## Q2 2011 Presentation Outline



- Business Overview and Outlook
- Financial Results

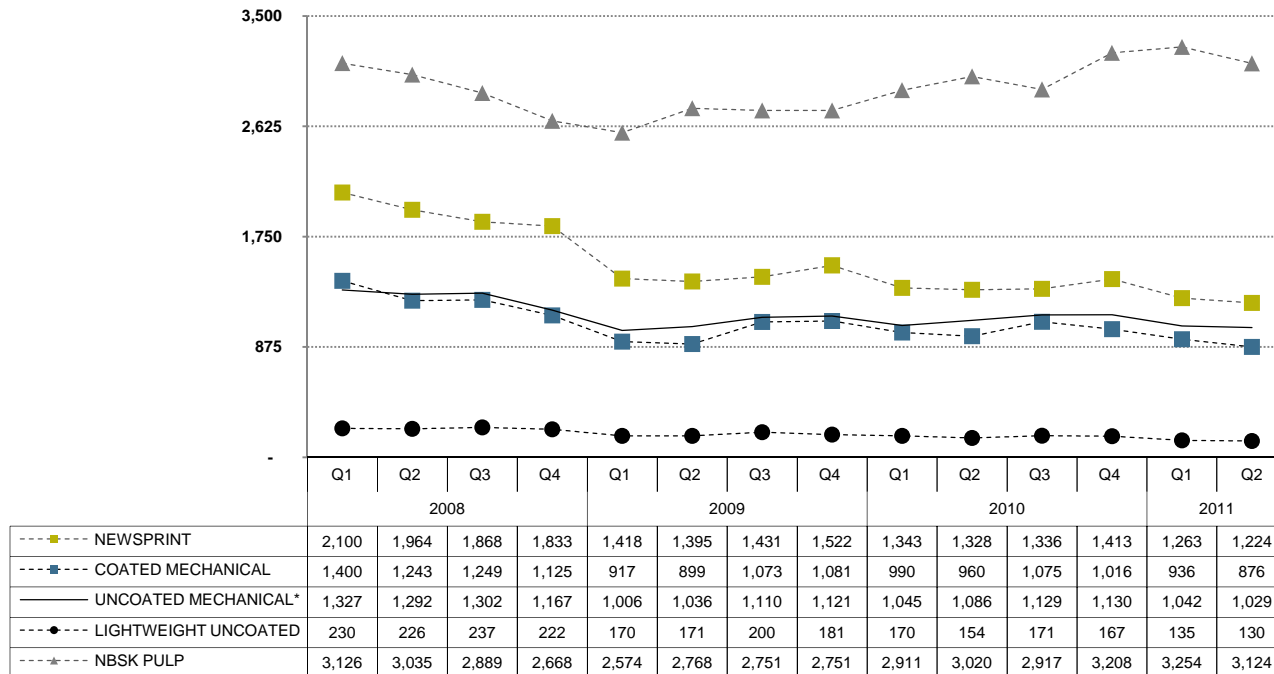
# Q2 2011 Highlights

<p><b>Financials</b></p> <ul style="list-style-type: none"><li>- Improved capital structure with amended Asset Based Loan (ABL) facility in May 2011 reducing the amount of the facility from \$330 million to \$175 million and extending the maturity date from August 2013 to May 2016</li><li>- Achieved \$4 million in pulp price increases over Q1 2011</li><li>- Continued cost control with \$1 million lower SGA costs compared to Q1 2011</li></ul>	
<p><b>Operations</b></p> <ul style="list-style-type: none"><li>- Total mill outage at Snowflake and Powell River mills completed in Q2 and production at all mills matched to order book</li><li>- Achieved collective agreement with International Brotherhood of Electrical Workers (IBEW) at Snowflake</li></ul>	
<p><b>Sales and Marketing</b></p> <ul style="list-style-type: none"><li>- Continued aggressive marketing of Pacificote and Sage to gain entry to new market segments and to deepen position with existing accounts</li><li>- Implemented US\$40/st price increase in coated, SC and high brights grades</li></ul>	



# 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.



## Q2 2011 Challenges

Operations	<ul style="list-style-type: none"><li>• Crofton No.1 paper machine remained idled reducing capacity by 34,900 tonnes</li><li>• Fires at Snowflake and Powell River mills</li><li>• Lost production due to extended maintenance outages at Snowflake and Powell River mills</li></ul>
Labour Costs and Work Practices	<ul style="list-style-type: none"><li>• Safety improvement program underway; reduced lost-time injury frequency (LTI) and medical incident rate (MIR) in Q2 compared to Q1, however, overall safety performance falls short of goal</li></ul>
Property Taxation	<ul style="list-style-type: none"><li>• Continued to implement joint infrastructure agreement at Powell River and filed Supreme Court of Canada legal appeal on North Cowichan 2009 tax rates</li><li>• \$22.2 million paid July 4<sup>th</sup> for 2011 property taxes levied by B.C. municipalities; North Cowichan penalty portion arising from previously outstanding payment withheld</li></ul>

# 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; implemented April 1 price increase of US\$40/st on SC paper and coated paper. June 1 price increase of US\$40/st on high bright and super bright paper grades. US\$70/st directory price increase effective July 1, 2011 announced for non-contract customers.
- Benchmark prices for NBSK pulp expected to be under significant pressure due to high global pulp inventories.
- \$20M in capital spending for 2011 expected in addition to \$18M in federally funded energy projects at Port Alberni and Powell River.
- Mid-term strategies continue to focus on cash management, product and customer mix, operational efficiency and innovation.



# Q2 2011 Financial Results

	2010		2011		LTM
	Q3	Q4	Q1	Q2	
<i>(\$millions, except per share amounts)</i>					
Sales	\$ 322.3	\$ 333.6	\$ 303.6	\$ 297.8	\$ 1,257.3
EBITDA	34.2	28.7	15.9	(3.9)	74.9
Restructuring costs	0.3	–	–	–	0.3
EBITDA before restructuring costs	\$ 34.5	\$ 28.7	\$ 15.9	\$ (3.9)	\$ 75.2
<i>EBITDA margin before restructuring costs</i>	10.7%	8.6%	5.2%	(1.3%)	6.0%
Net earnings (loss) attributable to the Company	\$ 6.0	\$ 9.6	\$ (12.9)	\$ (47.4)	\$ (44.7)
Net earnings (loss) attributable to the Company before specific items	\$ (9.6)	\$ 4.1	\$ (23.6)	\$ (46.9)	\$ (76.0)
<i>Net earnings (loss) per share attributable to the Company's common shareholders</i>	\$ 0.02	\$ 0.02	\$ (0.03)	\$ (0.13)	\$ (0.12)
<i>Net earnings (loss) per share attributable to the Company's common shareholders before specific items</i>	\$ (0.03)	\$ 0.01	\$ (0.06)	\$ (0.12)	\$ (0.20)
<i>Average F/X spot rate (USD/CAD)</i>	0.962	0.987	1.015	1.033	0.999
<i>Average effective F/X rate (USD/CAD)</i>	0.948	0.982	1.011	1.032	0.993



## EBITDA Reconciliation – Q2 2011 vs. Q1 2011

<i>(\$millions)</i>	<u>EBITDA <sup>(1)</sup></u>
<b>Q1 2011 EBITDA <sup>(1)</sup></b>	<b>\$ 15.9</b>
Restructuring costs	—
<b>Q1 2011 EBITDA before specific items <sup>(1)</sup></b>	<u><b>15.9</b></u>
Paper prices	<b>0.1</b>
Pulp prices	<b>4.0</b>
Impact of CDN\$	<b>(3.0)</b>
Volume and mix	<b>(4.6)</b>
Distribution costs	<b>(3.1)</b>
Furnish mix and costs	<b>(3.9)</b>
Power and fuel costs	<b>(4.0)</b>
Maintenance costs	<b>(3.2)</b>
Selling, general and administrative	<b>1.0</b>
Lower of cost or market impact on inventory, net of inventory change	<b>(1.6)</b>
Other, net	<u><b>(1.5)</b></u>
<b>Q2 2011 EBITDA before restructuring costs <sup>(1)</sup></b>	<u><b>(3.9)</b></u>
Restructuring costs	—
<b>Q2 2011 EBITDA <sup>(1)</sup></b>	<u><b>\$ (3.9)</b></u>

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



## Q2 2011 Free Cash Flow

(\$millions)	2010		2011		LTM
	Q3	Q4	Q1	Q2	
EBITDA before restructuring costs	\$ 34.5	\$ 28.7	\$ 15.9	\$ (3.9)	\$ 75.2
Restructuring costs	(0.3)	–	–	–	(0.3)
EBITDA	34.2	28.7	15.9	(3.9)	74.9
Interest expense, excluding amortization	(19.2)	(18.5)	(17.6)	(17.6)	(72.9)
Capital expenditures	(2.4)	(2.8)	(2.3)	(5.6)	(13.1)
Income taxes received (paid)	(0.4)	(0.2)	(0.3)	(0.1)	(1.0)
Employee future benefits, net of funding	(1.2)	(0.1)	(1.2)	(1.1)	(3.6)
<b>Free cash flow</b>	<b>\$ 11.0</b>	<b>\$ 7.1</b>	<b>\$ (5.5)</b>	<b>\$ (28.3)</b>	<b>\$ (15.7)</b>



## Q2 2011 Liquidity

(\$millions)	2010		2011	
	Q3	Q4	Q1	Q2
	Prior ABL <sup>(1)</sup>	Prior ABL <sup>(1)</sup>	Prior ABL <sup>(1)</sup>	Amended ABL <sup>(1)</sup>
Borrowing base <sup>(2)</sup>	\$ 161.7	\$ 152.4	\$ 174.1	\$ 134.3
Letters of credit	(25.1)	(23.4)	(25.5)	(28.1)
Net amount drawn	—	—	—	—
Minimum excess availability <sup>(4)</sup>	(35.0)	(35.0)	(35.0)	—
Available to be drawn <sup>(3)</sup>	\$ 101.6	\$ 94.0	\$ 113.6	\$ 106.2
Cash on hand	82.3	95.4	53.8	30.2
Total liquidity	\$ 183.9	\$ 189.4	\$ 167.4	\$ 136.4

- (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) Q2 2011 includes a reserve of \$4.5million for unpaid property taxes (\$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?

