



# Business Review

Presentation to  
Imperial Capital LLC

by  
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November 5, 2010  
New York

# 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, including statements relating to overall economic conditions, future cost savings, capital expenditures, demand for our products, product prices and advertising levels, production volumes, future cash flows and liquidity, currency rates, covenant compliance, severance obligations, strength of markets, availability of fibre, curtailment of operations, and the impact of labour disruptions affecting suppliers. These forward-looking statements can be identified by the use of statements that include words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “likely”, “predicts”, “estimates”, “forecasts”, and similar words or phrases or the negative of these statements. These forward-looking statements reflect our current views and are based on certain assumptions including assumptions as to future economic conditions and courses of action as well as other factors we believe are appropriate in the circumstances. Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what benefit we will derive from them. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including:

- the impact of general economic conditions in the United States and Canada and in other countries in which we do business
- market conditions and demand for our products and the outlook for inventories, production and pricing
- declines in advertising and circulation
- expected cash flows, capital expenditures and completion of capital projects
- our ability and that of our agents to sell our products in export markets
- the implementation of trade restrictions and sanctions in jurisdictions we market our products
- business strategies and measures to implement strategies
- our history of losses
- the cyclical nature of our business
- the effects of intense competition
- competitive strengths, goals, expansion and growth of our business and operations
- shifts in industry capacity
- fluctuations in foreign exchange or interest rates
- our ability to successfully obtain cost savings from our cost reduction initiatives
- labour unrest
- fluctuations in the availability and cost of raw materials, including fibre and energy
- implementation of environmental legislation requiring capital for operational changes
- the availability of qualified personnel or management
- the outcome of certain litigation or disputes
- conditions in the capital markets and our ability to obtain financing and refinance existing debt
- other factors beyond our control

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.

Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results.

# 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.

# Presentation Overview

Company Overview

Industry Overview

Q3 2010 Review

Financial Review

Company Strategies and Priorities





# COMPANY OVERVIEW

# Catalyst Paper Corporation Overview

- Four mills with a combined annual capacity of 2.0 million tonnes
  - Paper: 1.6 million tonnes (idled 0.2 million)
  - Pulp: 0.4 million tonnes
- Closed our fifth mill at Elk Falls in September 2010 removing 0.5 million tonnes of paper capacity
- Last twelve months to September 30, 2010
  - Sales: \$1,190 million
  - EBITDA before specific items: \$58 million
- TSX Listed and SEC registrant

# Catalyst Paper Corporation Overview, continued

- 2009 Production

Paper	1.4 million tonnes
Pulp	<u>0.1 million tonnes</u>
Total	<u>1.5 million tonnes</u>

- Largest producer of mechanical printing papers in western North America
- Only producer of lightweight coated paper in western North America
- Own a 100% recycled paper mill in Arizona



# Capacity by Mill Location and Product Line

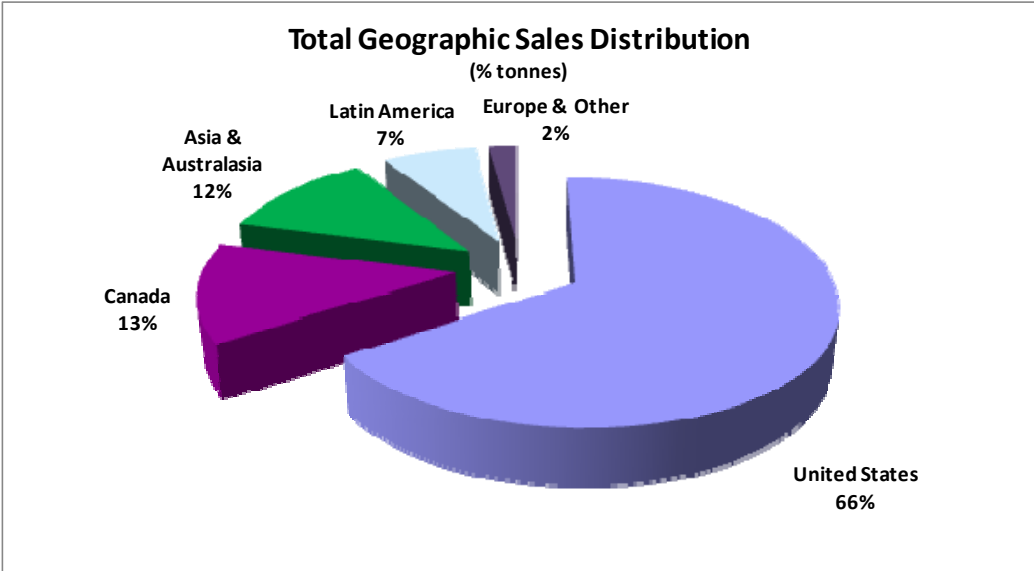
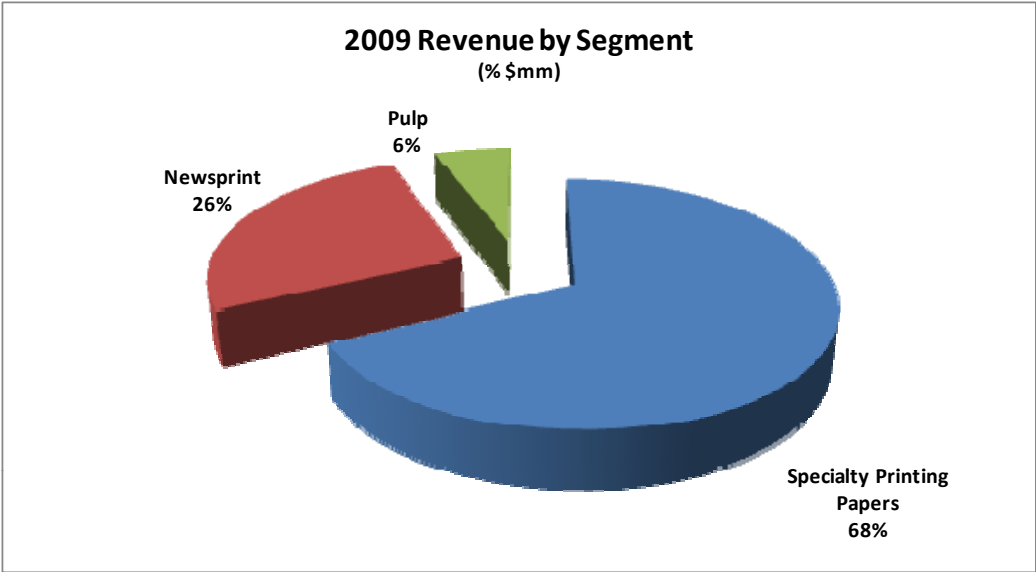
CAPACITY BY MILL LOCATION AND PRODUCT LINE <sup>1</sup>							
		Specialty printing papers <sup>1</sup>			Newsprint <sup>1</sup>	Pulp	Total
Mill location	Number of paper machines	Uncoated mechanical	Lightweight coated	Directory	Newsprint	NBSK pulp	
Crofton, B.C. <sup>2</sup>	3	-	-	183,000	234,000	403,000 <sup>3</sup>	820,000
Port Alberni, B.C.	2	-	231,000	112,000	-	-	343,000
Powell River, B.C.	3	368,000	-	-	104,000	-	472,000
Snowflake, Arizona	2	65,000	-	-	281,000	-	346,000
<b>Total capacity (tonnes)</b>		433,000	231,000	295,000	619,000	403,000	1,981,000
<b>% of total capacity</b>		22%	12%	15%	31%	20%	100%

- 1 Capacities expressed in the above table can vary as we are able to switch production between products, particularly newsprint, directory and machine-finished uncoated grades.
- 2 We have indefinitely curtailed the No. 1 paper machine at Crofton, removing 140,000 tonnes of newsprint production on an annualized basis. The capacity and number of machines noted in the above table have not been adjusted to reflect this indefinite curtailment.
- 3 Total pulp capacity at Crofton is 403,000 tonnes, of which 343,000 tonnes are designated as market pulp with the remainder being consumed internally.

# Product Profile

Segment	Specialty Printing Papers			Newsprint	Pulp	
Category	Uncoated Mechanical		Coated Mechanical	Newsprint	NBSK Pulp	
	Soft-Calendered	Machine-Finished				
<b>Brand Names</b>	Electrasoft Electracal Electraprime	Electrabrite Electrabrite Lite Electrastar Electrastar max	Electracote Electracote Brite Pacificote	Catalyst	Marathon	Crofton Kraft
<b>Basis Weight (g/m<sup>2</sup>)</b>	45 – 52	44.4 – 74	47.3 – 74	28 – 40	43 – 48.8	n/a
<b>Applications</b>	retail inserts, magazines, catalogues, flyers, direct mail, directories	retail inserts, magazines, supplements, flyers, direct mail, PR and 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
<b>Total capacity (tonnes)</b>	433,000		231,000	295,000	619,000	403,000
<b>% of Total Capacity</b>	22%		12%	15%	31%	20%

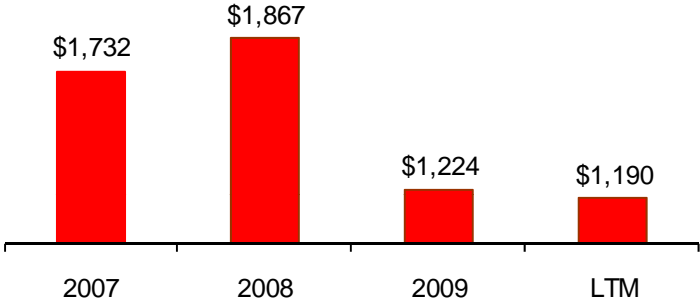
# Product and Geographic Diversity



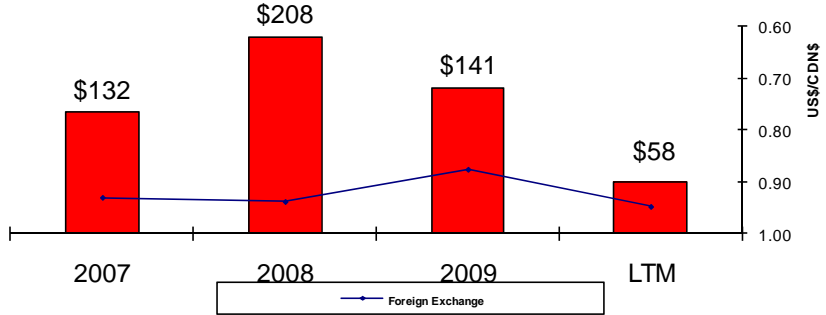
# Q3 2010 Financial Summary

(\$millions)

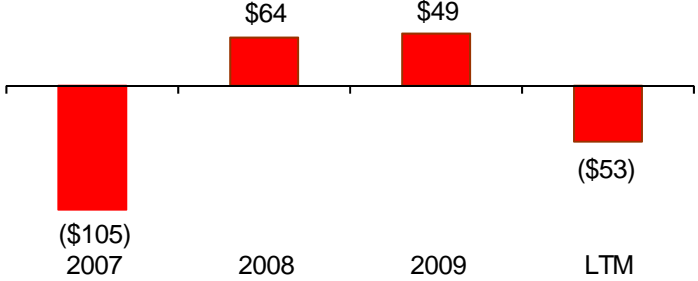
Sales



EBITDA before specific items



Free cash flow





# INDUSTRY OVERVIEW

# Total North American (“NA”) Demand

North American Demand					
	2007	2008	2009	2010 (03/10)	2010 (09/10)
<b>Newsprint</b>	8,743	7,696	5,766	5,355	5,505
<b>Directory</b>	1,012	915	721	693	678
<b>Uncoated- High Gloss</b>	2,884	2,651	2,189	2,219	2,307
<b>Uncoated- Standard</b>	2,327	2,437	2,084	2,085	2,125
<b>Coated</b>	5,908	5,017	3,971	4,172	4,139
<b>Total Paper</b>	<b>20,874</b>	<b>18,716</b>	<b>14,731</b>	<b>14,524</b>	<b>14,754</b>

Year-over Year % Change					
	2007	2008	2009	2010 (03/10)	2010 (09/10)
<b>Newsprint</b>	-10.3%	-12.0%	-25.1%	-7.6%	-4.5%
<b>Directory</b>	-0.1%	-9.6%	-21.3%	-3.8%	-5.9%
<b>Uncoated- High Gloss</b>	5.4%	-8.1%	-17.4%	3.3%	5.3%
<b>Uncoated- Standard</b>	-1.5%	4.7%	-14.5%	0.1%	2.0%
<b>Coated</b>	4.7%	-15.1%	-20.9%	3.6%	4.2%
<b>Total Paper</b>	<b>-2.4%</b>	<b>-10.0%</b>	<b>-21.1%</b>	<b>-1.4%</b>	<b>0.3%</b>

## NA Paper Demand

- NA Paper demand is expected to increase 0.3% (23,000 tonnes) in 2010 vs. 2009. This up from the March 2010 forecast which forecasted declines of 1.4%.
- Newsprint and directory are expected to see smaller demand declines in 2010 versus 2009.
- Coated and uncoated mechanical are expected to see higher growth than previously forecasted vs. 2009.

Source: PPPC September 2010

# Operating Rates

	Adj. Operating Rate %				
	2007	2008	2009	2010 (03/10)	2010 (09/10)
<b>Newsprint</b>	92.5%	93.6%	76.4%	77.0%	93.8%
<b>Directory</b>	95.2%	95.9%	86.8%	88.8%	101.5%
<b>Uncoated- High Gloss</b>	91.4%	93.1%	84.7%	89.2%	106.4%
<b>Uncoated- Standard</b>	88.9%	90.2%	82.3%	92.5%	92.8%
<b>Coated</b>	97.3%	87.6%	80.5%	83.3%	93.2%
<b>Total Paper</b>	<b>93.2%</b>	<b>91.8%</b>	<b>79.7%</b>	<b>82.4%</b>	<b>95.4%</b>

	Excess Capacity (000's mt)				
	2007	2008	2009	2010 (03/10)	2010 (09/10)
<b>Newsprint</b>	900	705	2,287	2,125	510
<b>Directory</b>	52	45	121	100	(10)
<b>Uncoated- High Gloss</b>	228	166	354	237	(126)
<b>Uncoated- Standard</b>	319	297	487	186	181
<b>Coated</b>	145	615	849	733	288
<b>Total Paper</b>	<b>1,644</b>	<b>1,828</b>	<b>4,098</b>	<b>3,381</b>	<b>843</b>

Source: PPPC September 2010




## NA Operating Rates

- Operating rates for paper are expected to improve to 95.4% compared to the 79.7% in 2009 and 82.4% in the previous 2010 forecast.
- Excess capacity in newsprint has been significantly reduced from 2.3 million tonnes in 2009 leading to tighter market conditions.
- Coated and uncoated mechanical rates are expected to be significantly higher than 2009 and the previous 2010 forecast which should lead to improved market conditions.



# Q3 2010 REVIEW

# Q3 2010 Highlights

<b>Financials</b> <ul style="list-style-type: none"><li>– Achieved \$34M in EBITDA</li><li>– \$33M improvement in free cash flow compared to prior quarter</li><li>– Cash availability of \$184 million was down \$24M from prior quarter due to buyback of 2011 Senior Notes, payment of B.C. property taxes and severances</li></ul>	
<b>Operations</b> <ul style="list-style-type: none"><li>– Permanent closure of Elk Falls and Coquitlam paper recycling facilities</li><li>– Successfully completed bi-annual shutdown of our Crofton mill</li><li>– Reduced SG&amp;A expenses and improved staffing efficiency</li><li>– Began discussions with unions on a new wage agreement</li></ul>	
<b>Sales and Marketing</b> <ul style="list-style-type: none"><li>– Expanded sales and marketing to stronger base of national printers, book, magazine and national retailers</li><li>– Aggressively targeted new accounts to support grade enhancements<ul style="list-style-type: none"><li>• Launched Pacificote, Electrabrite Book, Electrabrite 100% FSC recycled, Sage line of environmentally friendly papers</li></ul></li></ul>	

## Q3 2010 Challenges

Commodity Curtailment	Crofton No.1 paper machine remained idled reducing capacity by 35,300 tonnes
Labour Costs and Work Practices	Continue discussions regarding re-set of existing pattern agreement to ensure we maintain our competitive price position
Property Taxation	Continue to advocate for durable solution given competitive investment climate



# FINANCIAL REVIEW

# Summary of Segmented Financial Information

(Millions, except where otherwise stated)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>LTM</u>
<b>Sales (000 MT)</b>				
Specialty printing papers	1,054.8	1,080.8	896.5	874.7
Newsprint	496.3	601.8	488.2	486.8
Pulp	603.2	506.9	110.2	235.0
	<u><b>2,154.3</b></u>	<u><b>2,189.5</b></u>	<u><b>1,494.9</b></u>	<u><b>1,596.5</b></u>
<b>Sales</b>				
Specialty printing papers	\$ 919.6	\$ 1,000.9	\$ 832.3	\$ 713.7
Newsprint	338.0	463.9	320.6	288.8
Pulp	457.0	384.6	70.6	187.5
	<u><b>\$ 1,714.6</b></u>	<u><b>\$ 1,849.4</b></u>	<u><b>\$ 1,223.5</b></u>	<u><b>\$ 1,190.0</b></u>
<b>EBITDA</b>				
Specialty printing papers	\$ 26.2	\$ 139.5	\$ 134.9	\$ 44.7
Newsprint	(23.7)	43.3	(8.4)	(39.0)
Pulp	24.5	(23.4)	(3.3)	26.0
	<u><b>\$ 27.0</b></u>	<u><b>\$ 159.4</b></u>	<u><b>\$ 123.2</b></u>	<u><b>\$ 31.7</b></u>
<b>EBITDA before specific items</b>				
Specialty printing papers	\$ 68.4	\$ 150.1	\$ 146.6	\$ 53.3
Newsprint	(10.8)	47.4	(5.4)	(22.7)
Pulp	34.1	(8.0)	(0.1)	27.8
	<u><b>\$ 91.7</b></u>	<u><b>\$ 189.5</b></u>	<u><b>\$ 141.1</b></u>	<u><b>\$ 58.4</b></u>
<b>Operating earnings (loss)</b>				
Specialty printing papers	\$ (75.1)	\$ 27.0	\$ 41.1	\$ (143.6)
Newsprint	(56.9)	3.6	(70.3)	(277.4)
Pulp	(17.4)	(188.0)	(11.6)	12.2
	<u><b>\$ (149.4)</b></u>	<u><b>\$ (157.4)</b></u>	<u><b>\$ (40.8)</b></u>	<u><b>\$ (408.8)</b></u>

# Free Cash Flow

<i>(\$millions)</i>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>LTM</u>
<b>Summarized cash flow</b>				
EBITDA before specific items	\$ 116.7	\$ 189.5	\$ 141.1	\$ 58.4
Specific items	<u>(89.7)</u>	<u>(30.1)</u>	<u>(17.9)</u>	<u>(26.7)</u>
EBITDA	27.0	159.4	123.2	31.7
Interest expense, excluding amortization	(67.8)	(74.4)	(66.5)	(70.1)
Capital expenditures	(85.8)	(41.9)	(11.5)	(13.1)
Income taxes received (paid)	(0.5)	(0.8)	(0.5)	(0.3)
Employee future benefits, net of funding	<u>6.7</u>	<u>2.9</u>	<u>4.3</u>	<u>(1.5)</u>
<b>Free cash flow</b>	<u><b>\$ (120.4)</b></u>	<u><b>\$ 45.2</b></u>	<u><b>\$ 49.0</b></u>	<u><b>\$ (53.3)</b></u>

# Liquidity

(\$millions)	December 31			Sep 30
	2007	2008	2009	2010
Borrowing base	\$ 309.0	\$ 263.3	\$ 147.9	\$ 161.7
Letters of credit	(20.7)	(27.9)	(24.1)	(25.1)
Amount drawn	(47.5)	(60.1)	(14.5)	–
Minimum excess availability	-	(35.0)	(35.0)	(35.0)
Available to be drawn <sup>(1) (2) (3)</sup>	240.8	140.3	74.3	101.6
Cash on hand	-	5.0	83.1	82.3
<b>Total liquidity</b>	<b>\$ 240.8</b>	<b>\$ 145.3</b>	<b>\$ 157.4</b>	<b>\$ 183.9</b>

- (1) Our ABL Facility is subject to certain financial covenants as disclosed in our interim consolidated financial statements for the three and six months ended September 30, 2010, in note 9, *Long-term debt*.
- (2) Under the terms of the ABL Facility, various reserves may be deducted from the borrowing base. A reserve in respect of vacation pay obligations, which as at September 30, 2010 amounted to \$18.8 million, may be imposed if Excess Availability, as defined in the ABL Facility, is below a threshold of \$75 million. Excess Availability under this definition was \$136.6 million at September 30, 2010.
- (3) Availability effective 2008 relates to the ABL Facility and availability for prior periods relates to the Company's previous \$350 million revolving operating facility.

# Capitalization

(\$millions, except where otherwise stated)

	2009 Dec 31	2010 Sep 30
<b>Total debt</b>		
8.625% senior notes, due June 2011 <sup>(1)</sup>	\$ 372	\$ 27
7.375% senior notes, due March 2014 <sup>(2)</sup>	265	261
11.0% senior secured notes, due December 2016 <sup>(3)</sup>	–	289
11.0% Class B senior secured notes, due December 2016 <sup>(4)</sup>	–	98
Modification – difference in carrying value of 8.625% and 11.0% senior secured notes on exchange <sup>(5)</sup>	–	37
Revolving asset based loan	15	–
Capital lease obligation	11	10
Other non-recourse (PREI)	113	114
Total	776	836
<b>Shareholders' equity attributable to the Company</b>	814	426
<b>Total capitalization attributable to the Company</b>	\$ 1,590	\$ 1,262
<b>Cash</b>	\$ 83	\$ 82
<b>Net debt ratio <sup>(6)</sup></b>	46%	64%

<sup>(1)</sup> US\$26 million; 2009 - US\$354 million

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

<sup>(3)</sup> US\$280 million; 2009 - \$nil

<sup>(4)</sup> US\$110 million; 2009 - \$nil

<sup>(5)</sup> US\$38 million; 2009 - \$nil

<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)

# EBITDA Sensitivities

<i>(\$millions)</i>	<u>EBITDA</u>
<b>Impact of US\$10/t change</b> <sup>(1), (2)</sup>	
Specialty printing papers	\$ 9
Newsprint	5
Pulp	3
	<hr/>
	\$ 17
	<hr/>
<b>Impact of \$0.01 change in US\$</b> <sup>(3)</sup>	6
<b>Impact of 5% change in price of:</b> <sup>(1), (4)</sup>	
Natural gas and oil – direct purchases	1
Electricity – direct purchases	6
Coal	1
<b>Impact of US\$5/unit change</b> <sup>(1), (4)</sup>	
Wood chips (Bdt)	8
ONP (ST)	2

(1) Based on a foreign exchange rate of US\$0.96.

(2) Based on annualized sales of Q3 2010.

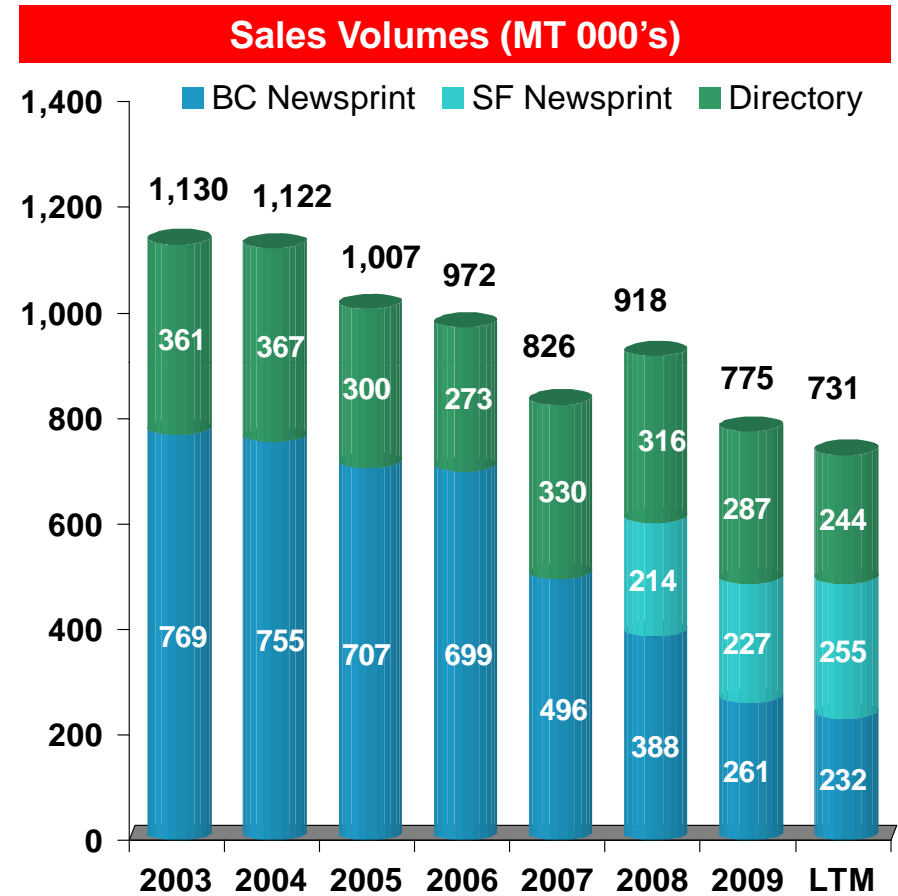
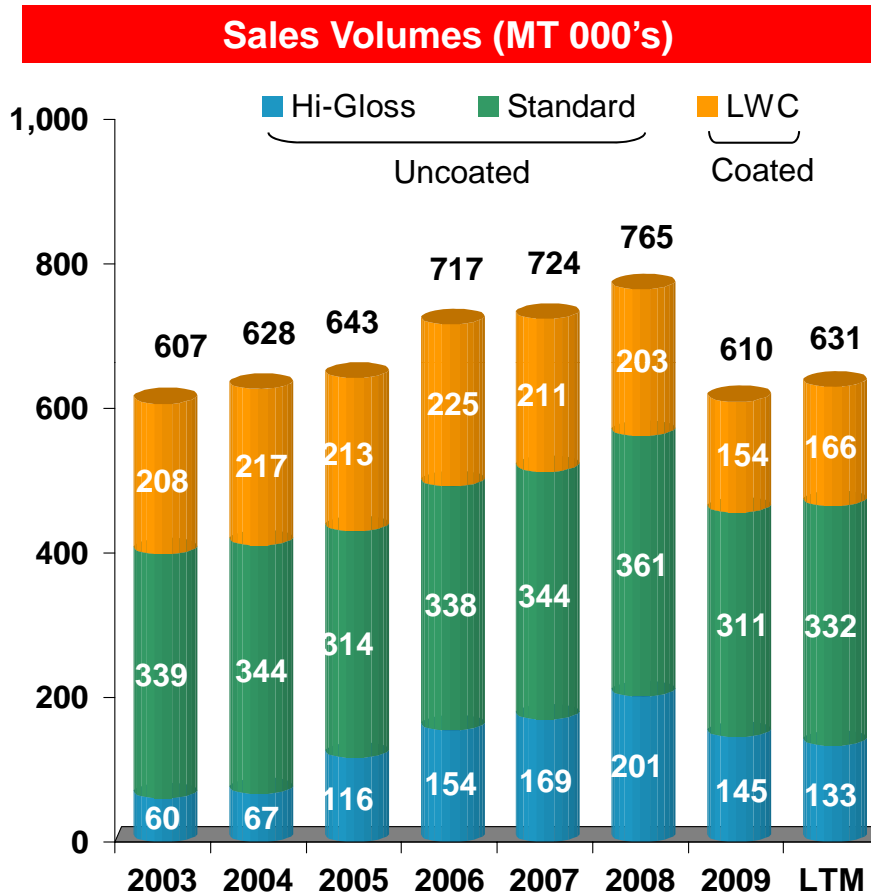
(3) Based on Q3 2010 annualized net cash flows and a foreign exchange movement to US\$0.97 from US\$0.96 and excluding our hedging program and the impact of the translation of U.S. dollar denominated debt.

(4) Based on annualized Q3 2010 consumption levels.



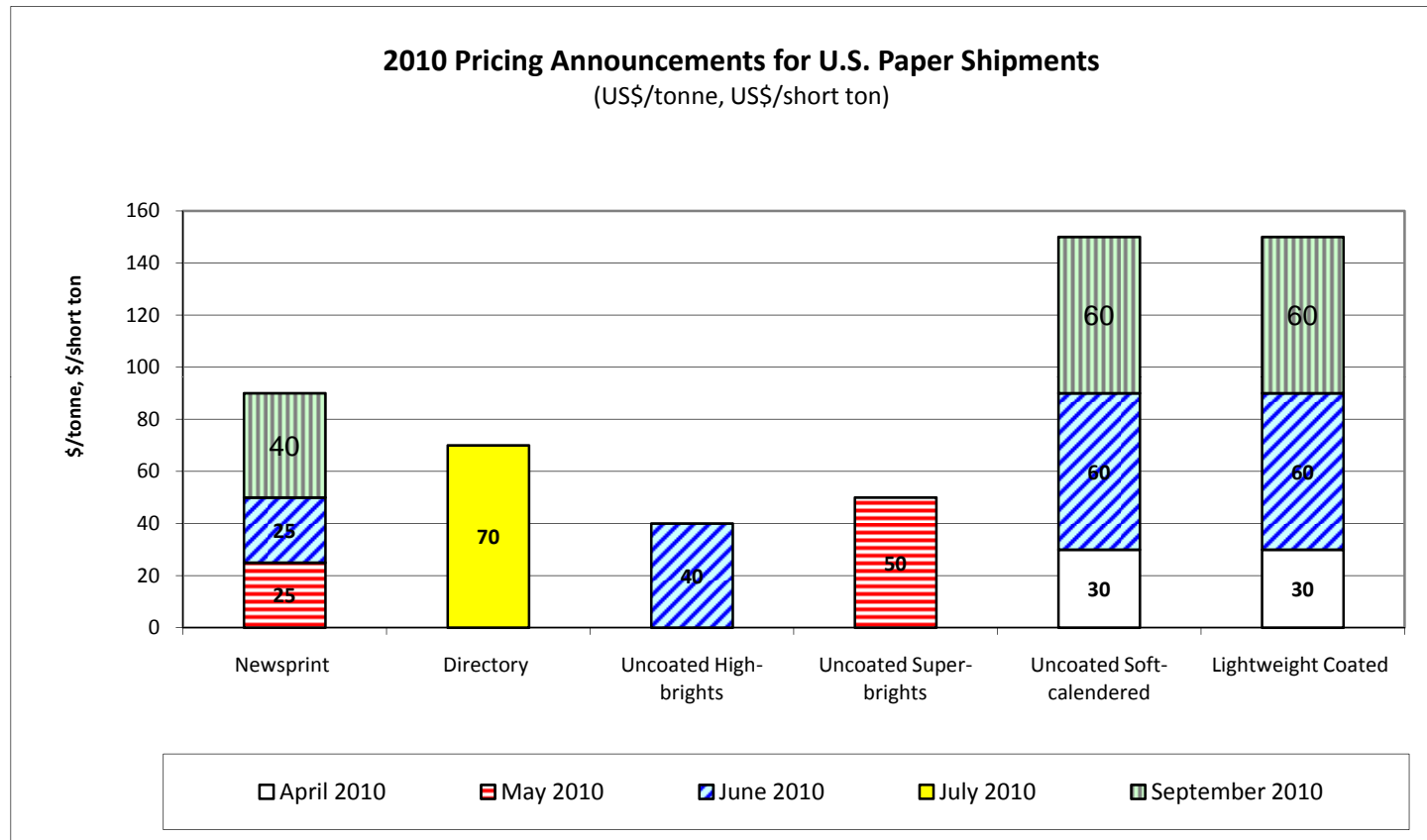
# COMPANY STRATEGIES AND PRIORITIES

# Strategy is to Grow Specialty Grades and Optimize Directory and Newsprint Competitive Position



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

# Pricing Momentum



- We expect that pulp prices will soften for the balance of the year

# 2010 Key Priorities

## **Focus on cash flows and liquidity**

- Free cash flow was \$11.0 million and liquidity decreased by \$24.4 million
- Expended \$2.4 million towards maintenance of business capital projects in Q3

## **Match production to customer orders and optimize inventory levels**

- Crofton No.1 paper machine curtailment represents 23% of newsprint capacity

## **Develop higher-value grades at all mills**

- Developed Electrabrite Book and Electracote Brite at our B.C. mills and Electrabrite Lite, a 100% recycled and FSC certified grade, at our Snowflake mill
- Launched Pacificote coated four grade and Sage line of environmentally-friendly papers
- Aggressively targeted new customers to support grade improvement program

## **Implement initiatives to reduce fixed costs**

- The closure of facilities in September will generate immediate fixed cost savings, with annualized savings of approximately \$13 million expected for 2011
- Continue to take legal and other actions in pursuit of fair and sustainable municipal property taxes
- Reduced salary staffing levels by 35 positions to continue to carry out business efficiently

## **Reduce labour costs and develop more flexible and efficient work practices**

- Continue to emphasize the need for a reset to the pattern agreement based on industry precedent

## **Improve the safety performance at all mills**

- Continue to focus on workplace and work practice safety audits