



# Second Quarter 2009 Earnings Presentation

Presented by:

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## Forward-looking Statements

The presentation and answers to questions today contain forward-looking statements that are based on management's assumptions, including assumptions relating to overall economic conditions, market conditions and demand for the Company's products, production volumes and pricing, capital expenditures, our ability to successfully obtain cost reductions, anticipated curtailments of operations, fluctuations in foreign exchange rates, future cash flows and liquidity, availability of fibre supplies, fluctuations in availability and cost of raw materials and energy, levels of advertising and circulation, and other factors beyond the Company's control. These statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by the Company may occur or what benefits the Company may derive from them. A number of factors could cause actual results to differ materially from those expressed or implied in these statements.

For further details on these factors and our assumptions and applicable risks and uncertainties, please refer to Catalyst Paper's Q2 report, including our management discussion and analysis.

## Non-GAAP Measures

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

“EBITDA” is a non-GAAP measure, calculated as operating earnings (loss) plus amortization and impairment. The Company focuses on EBITDA as the Company believes this measure enables comparison of the Company’s results between periods without regard to debt service, income taxes and capital expenditure requirements.

“EBITDA before specific items”, “net earnings (loss) before specific items” and “net earnings (loss) per share before specific items” are non-GAAP measures. The Company uses measures excluding specific items in evaluating its results between periods without regard to specific items that adversely or positively affect its 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. The Company reports free cash flow as it believes it is useful for investors and other users to be aware of this measure so they can better assess the Company’s operating performance.

## Outline of Presentation



- Q2 Overview
- Outlook and Near-Term Focus
- Q2 Financial Summary

# Financial Overview

	2008		2009		LTM
	Q3	Q4	Q1	Q2	
<i>(\$millions, except per share amounts)</i>					
Sales	\$ 504.8	\$ 492.2	\$ 352.5	\$ 291.5	\$ 1,641.0
EBITDA	\$ 53.1	\$ 64.7	\$ 61.1	\$ 6.1	\$ 185.0
Restructuring costs	13.1	1.2	4.2	12.3	30.8
EBITDA before specific items	\$ 66.2	\$ 65.9	\$ 65.3	\$ 18.4	\$ 215.8
<i>EBITDA margin before specific items</i>	13.1%	13.4%	18.5%	6.3%	13.2%
Net earnings (loss)	\$ (10.9)	\$ (48.5)	\$ 21.0	\$ (1.9)	\$ (40.3)
Net earnings (loss) before specific items	\$ 7.2	\$ 9.3	\$ 8.6	\$ (25.6)	\$ (0.5)
<i>Net earnings (loss) per share before specific items</i>	\$ 0.02	\$ 0.02	\$ 0.02	\$ (0.06)	\$ 0.00

## Q2 2009 Overview

- Market conditions for the Company's products continued to be extremely challenging during Q2, 2009 ("Q2").
- Demand for printing papers for the first half of 2009 declined at record year-over-year rates and product prices decreased significantly in Q2.
- In addition to price decreases, a stronger Canadian dollar in the quarter further negatively impacted revenue in Q2.
- The Company took market related curtailment of approximately 50% of the Company's newsprint capacity, 19% of specialty printing paper capacity and 100% of its market pulp capacity. This represented curtailment of 43% of total market capacity compared to 30% in Q1, 2009 ("Q1").
- Q2 EBITDA before specific items of \$18.4 million was \$46.9 million lower than EBITDA before specific items of \$65.3 million in Q1, 2009 and net loss before specific items of \$25.6 million in Q2 compared to net earnings before specific items of \$8.6 million in Q1, 2009.

## Q2 2009 Overview ... continued

- The following table summarizes pulp and paper production curtailment in Q2:

Q2, 2009 Production Curtailment (000 tonnes)	Specialty printing papers	Newsprint	Pulp	Total
Crofton <sup>1</sup>	16.3	—	85.8	102.1
Elk Falls <sup>2</sup>	38.0	93.1	—	131.1
Snowflake	—	26.0	—	26.0
Total	54.3	119.1	85.8	259.2

(1) Market-related curtailment comprised of 16,300 tonnes of specialty printing papers related to C1 which was curtailed from February 1, 2009 to May 25, 2009 and 85,800 tonnes of market pulp which was indefinitely curtailed on March 8, 2009.

(2) Market-related curtailment comprised of 38,000 tonnes of specialty printing papers related to E2 which was indefinitely curtailed on February 23, 2009, 38,300 tonnes of newsprint related to E1, which was curtailed throughout Q1 and Q2, and 54,800 tonnes of newsprint related to E5 which was indefinitely curtailed on February 23, 2009.

## Q2 2009 Overview ... continued

- A restructuring plan to reduce the level of salaried staff by approximately 100 positions was announced in May, 2009.
- The Company petitioned the Supreme Court of British Columbia (“B.C.”) for judicial review of the municipal property tax rates in four municipalities. The Company has withheld payment of \$13.3 million of the \$19.3 million levied by the four B.C. municipalities. This non-payment is subject to a 10% penalty.
- The Company announced it is reviewing alternatives to address the maturity of its US\$354 million, 8.625% notes and US\$250 million, 7.375% notes which mature in June 2011 and March 2014, respectively.
- Due to the uncertainty surrounding the potential refinancing plan, and in light of adverse industry conditions, S&P lowered the Company’s long-term corporate credit ratings from B to CCC+ in June, 2009. Moody’s lowered the Company’s corporate family rating from B1 to B3 in July, 2009.

## Update on 2009 Key Priorities

- **Focus on cash flows and liquidity:**
  - free cash flow was negative \$6.4 million in Q2 and liquidity decreased by \$6.7 million from Q1 as market conditions continued to deteriorate;
  - capital expenditures are expected to be less than \$20 million in 2009, compared to \$41.9 million in 2008 and \$85.8 million in 2007;
  - generated proceeds of \$10.4 million by unwinding debt hedges in Q2, bringing the year-to-date proceeds from monetizing favourable debt hedge positions to \$34.8 million;
  - PREI successfully refinanced \$75 million of existing debt upon maturity with \$95 million of new first mortgage bonds, maturing 2016.
- **Maintain the Company's focus on matching production to customer orders and keep inventories at appropriate levels:**
  - Q2 curtailment represented approximately 33% of paper capacity and 100% of market pulp capacity; finished goods inventory of 49,600 tonnes at end of Q2 compared to an average quarter-end inventory level of 105,200 tonnes in 2008 and 77,800 tonnes at the end of the prior quarter.

## Update on 2009 Key Priorities ... continued

- **Identify further opportunities to reduce “fixed” costs during periods of production curtailment to minimize the financial impact of operating at reduced volumes:**
  - mill fixed costs were \$14.5 million lower in Q2 than the previous quarter compared to a reduction in production volume of 60,700 tonnes;
  - initiated a salaried staff restructuring program designed to reduce staff by approximately 100 positions;
  - continued focus on reducing the fixed cost burden of municipal property taxes that do not reflect the provision of services via a legal challenge that is underway.
- **Finalize and implement plans to reduce labour costs to \$80 per tonne at Crofton, Elk Falls and Powell River mills:**
  - manning structures at Powell River, Port Alberni, and Crofton mills announced in prior quarters continue to be implemented;
  - exploring further opportunities to realize labour cost savings beyond the \$80 per tonne target through new cost per hour targets.
- **Reduce municipal property taxes in four of the municipalities in B.C. that the Company operates in**
  - Petitioned the Supreme Court of B.C. for judicial review of the municipal property tax rates in four of the municipalities in which its B.C. paper mills are located.

# EBITDA Reconciliation

## Q2 2009 vs. Q1 2009

(\$millions)

	<u>EBITDA <sup>1</sup></u>
<b>Q1 2009 EBITDA</b>	<b>\$ 61.1</b>
Restructuring costs	4.2
<b>Q1 2009 EBITDA before specific items</b>	<b>\$ 65.3</b>
Paper prices	(32.9)
Pulp prices	(0.5)
Impact of CDN\$ on sales, inclusive of hedging <sup>2</sup>	(10.5)
Volume and mix	(7.1)
Fibre mix and costs	1.3
Labour costs	11.5
Maintenance	4.1
Lower of cost or market valuation of inventories	(8.4)
Other, net	(4.4)
<b>Q2 2009 EBITDA before specific items</b>	<b>\$ 18.4</b>
Restructuring costs	(12.3)
<b>Q2 2009 EBITDA</b>	<b>\$ 6.1</b>

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

<sup>2</sup> Estimated total impact on EBITDA of average foreign exchange effective rate movement period-to-period is negative \$6.3 million.

## Outlook and Near-Term Focus

- Market conditions are expected to remain very challenging for the foreseeable future as there is no evidence to suggest the imbalance between supply and demand is changing.
- Demand is expected to remain weak and despite seasonal factors that could prevent further demand erosion in Q3, prices are expected to deteriorate further.
- Directory pricing is expected to drop in 2010 as new pricing arrangements will replace 2009 prices.
- The Company expects to curtail 51% of its newsprint capacity, 19% of its specialty printing paper capacity, and 100% of its market pulp capacity in Q3. This represents 43% of total market capacity, consistent with Q2.
  - Expected curtailment in Q3,2009:

Q3, 2009 Production Curtailment (000 tonnes)	Specialty printing papers	Newsprint	Pulp	Total
Crofton <sup>1</sup>	—	—	85.8	85.8
Elk Falls <sup>1</sup>	53.0	78.0	—	131.0
Snowflake	—	43.7	—	43.7
Total	53.0	121.7	85.8	260.5

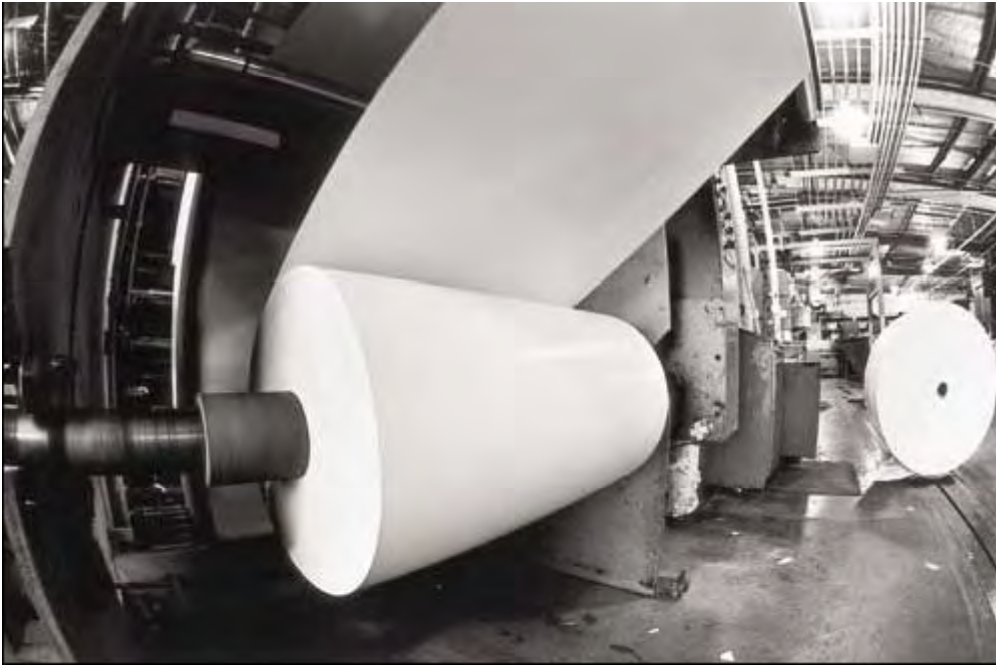
(1) Curtailment includes market curtailment related to E1, E2, E5 and Crofton pulp which are indefinitely curtailed.

- Decisions on more or less curtailment in the third quarter and beyond will be taken as required based on market conditions at the time, as well as availability of economically viable fibre.

## Outlook and Near-Term Focus ... continued

- Impact of declining prices, anticipated level of curtailments, and stronger Canadian dollar will have significant negative impact on the Company's operating results, cash flows, and liquidity.
- The Company remains focused on minimizing the impact on liquidity by pursuing all opportunities to conserve cash and reduce expenditures. Capital spending is expected to be less than \$20 million in 2009.
- The pulp and paper industry is in a period of structural change over and above the effects of the current recession. This will require longer-term solutions to address the Company's cost challenges, asset base, and capital structure.

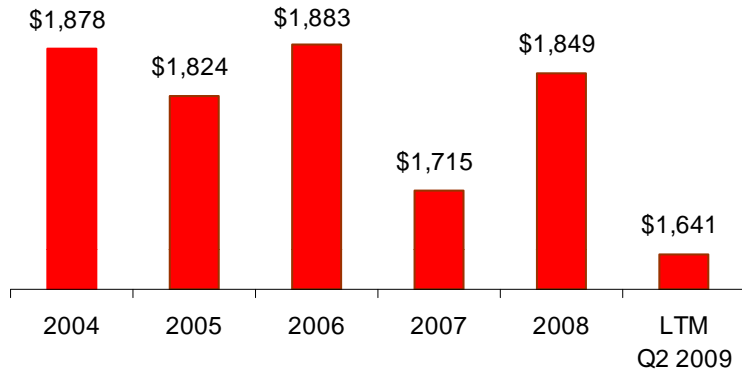
# Financial Summary



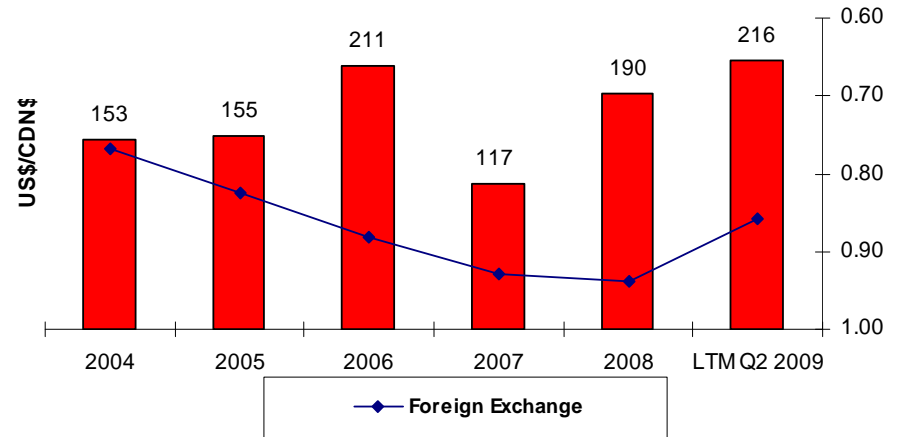
# Summary of Historical Financials

(\$millions)

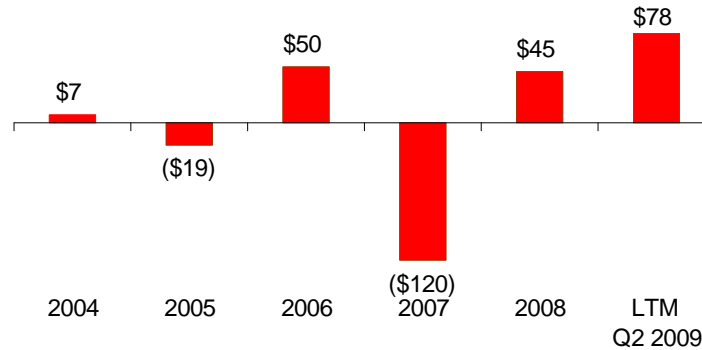
Sales



EBITDA before specific items



Free cash flow



## Summary of Financial Results

	2008		2009		LTM
	Q3	Q4	Q1	Q2	
<i>(\$millions, except F/X rates)</i>					
Sales	\$ 504.8	\$ 492.2	\$ 352.5	\$ 291.5	\$ 1,641.0
Cost of sales and SG&A	438.6	426.3	287.2	273.1	1,425.2
EBITDA before specific items	66.2	65.9	65.3	18.4	215.8
Specific items:					
Restructuring costs	13.1	1.2	4.2	12.3	30.8
EBITDA	\$ 53.1	\$ 64.7	\$ 61.1	\$ 6.1	\$ 185.0
Average F/X spot rate (USD/CAD)	0.961	0.825	0.803	0.857	0.858

# Summary of Segmented Financial Information

(Millions, except where otherwise stated)

	2008		2009		LTM
	Q3	Q4	Q1	Q2	
<b>Sales (000 MT)</b>					
Specialty printing papers	268.7	276.2	209.0	215.6	969.5
Newsprint	189.0	160.2	125.4	131.0	605.6
Pulp	138.0	93.5	59.5	12.3	303.3
	<u>595.7</u>	<u>529.9</u>	<u>393.9</u>	<u>358.9</u>	<u>1,878.4</u>
<b>Sales</b>					
Specialty printing papers	\$ 248.7	\$ 281.9	\$ 210.7	\$ 199.7	\$ 941.0
Newsprint	148.9	143.0	105.6	85.1	482.6
Pulp	107.2	67.3	36.2	6.7	217.4
	<u>\$ 504.8</u>	<u>\$ 492.2</u>	<u>\$ 352.5</u>	<u>\$ 291.5</u>	<u>\$ 1,641.0</u>
<b>EBITDA</b>					
Specialty printing papers	\$ 40.5	\$ 58.9	\$ 44.6	\$ 19.2	\$ 163.2
Newsprint	21.5	23.6	19.9	(11.9)	53.1
Pulp	(8.9)	(17.8)	(3.4)	(1.2)	(31.3)
	<u>\$ 53.1</u>	<u>\$ 64.7</u>	<u>\$ 61.1</u>	<u>\$ 6.1</u>	<u>\$ 185.0</u>
<b>EBITDA before specific items</b>					
Specialty printing papers	\$ 40.6	\$ 57.9	\$ 46.6	\$ 29.0	\$ 174.1
Newsprint	21.6	23.5	20.6	(10.0)	55.7
Pulp	4.0	(15.5)	(1.9)	(0.6)	(14.0)
	<u>\$ 66.2</u>	<u>\$ 65.9</u>	<u>\$ 65.3</u>	<u>\$ 18.4</u>	<u>\$ 215.8</u>
<b>Operating earnings (loss)</b>					
Specialty printing papers	\$ 14.6	\$ 22.6	\$ 21.4	\$ (3.6)	\$ 55.0
Newsprint	11.9	10.6	8.7	(23.8)	7.4
Pulp	(12.5)	(21.7)	(5.9)	(2.3)	(42.4)
	<u>\$ 14.0</u>	<u>\$ 11.5</u>	<u>\$ 24.2</u>	<u>\$ (29.7)</u>	<u>\$ 20.0</u>

## Impact of Specific Items on Net Earnings (Loss)

<i>(\$millions, except per share amounts)</i>	2008		2009		LTM
	Q3	Q4	Q1	Q2	
<b>Net earnings (loss) as reported</b>	\$ (10.9)	\$ (48.5)	\$ 21.0	\$ (1.9)	\$ (40.3)
Specific items (after taxes):					
Foreign exchange (gain) loss on long-term debt	9.1	45.2	10.7	(32.2)	32.8
Impairment and loss on disposal	-	10.0	-	-	10.0
Restructuring costs	9.0	0.9	3.0	8.5	21.4
Gain on cancellation of long-term debt	-	-	(26.1)	-	(26.1)
Income tax adjustments	-	1.7	-	-	1.7
<b>Net earnings (loss) before specific items</b>	7.2	9.3	8.6	(25.6)	(0.5)
<b>Net earnings (loss) per share before specific items</b>	\$ 0.02	\$ 0.02	\$ 0.02	\$ (0.06)	\$ 0.00

# Capitalization

(\$millions, except where otherwise stated)

	2009 Mar 31	2009 Jun 30
<b>Total debt</b>		
Senior Notes <sup>(1)</sup>	\$ 442	\$ 408
Senior Notes <sup>(2)</sup>	316	291
Revolving Asset Based Loan	39	–
Capital lease obligation	12	12
Other non-recourse (PREI)	94	95
Total	\$ 903	\$ 806
<b>Shareholders' equity</b>	895	899
<b>Total capitalization</b>	\$ 1,798	\$ 1,705
<b>Cash</b>	\$ 6	\$ 42
<b>Net debt ratio <sup>(3)</sup></b>	50%	46%

<sup>(1)</sup> 8.625% notes, due June 2011 (US\$354.2 million)

<sup>(2)</sup> 7.375% notes, due March 2014 (US\$250 million)

<sup>(3)</sup> Net debt ratio equals net debt (i.e. total debt less cash), divided by net capitalization

# Free Cash Flow

(\$millions)	2008		2009		LTM
	Q3	Q4	Q1	Q1	
<b>Summarized cash flow</b>					
EBITDA before specific items	\$ 66.2	\$ 65.9	\$ 65.3	\$ 18.4	\$ 215.8
Specific items	(13.1)	(1.2)	(4.2)	(12.3)	(30.8)
EBITDA	53.1	64.7	61.1	6.1	185.0
Cash interest paid, net	(18.8)	(21.1)	(19.2)	(15.5)	(74.6)
Capital spending	(12.1)	(13.5)	(3.6)	(2.2)	(31.4)
Cash taxes paid, net	0.4	(0.7)	(0.4)	(0.3)	(1.0)
Employee future benefits, net of funding <sup>1</sup>	–	(3.2)	(2.0)	5.5	0.3
<b>Free cash flow</b>	<b>\$ 22.6</b>	<b>\$ 26.2</b>	<b>\$ 35.9</b>	<b>\$ (6.4)</b>	<b>\$ 78.3</b>

1 Free cash flow is adjusted to reflect the cash impact of employee future benefits rather than the accounting expense which is included in EBITDA.

# Liquidity

(\$millions)	2008		2009	
	Q3	Q4	Q1	Q2
Borrowing base <sup>(1)</sup>	\$ 304.1	\$ 263.3	\$ 241.5	\$ <b>159.4</b>
Letters of credit	(24.5)	(27.9)	(25.8)	<b>(24.8)</b>
Net amount drawn	(113.5)	(60.1)	(38.8)	—
Available to be drawn <sup>(2), (3)</sup>	\$ 166.1	\$ 175.3	\$ 176.9	\$ <b>134.6</b>
Cash on hand	6.2	5.0	6.0	<b>41.6</b>
Total liquidity	\$ 172.3	\$ 180.3	\$ 182.9	\$ <b>176.2</b>

- (1) The borrowing base at Q2, 2009 includes a reserve of \$15.1 million for unpaid property taxes and associated penalties.
- (2) Availability relates to the Company's \$330 million ABL Facility.
- (3) The Company's ABL Facility is subject to certain financial covenants as disclosed in the Company's interim consolidated financial statements for the three-month period ended June 30, 2009, in note 6, "Long-term debt." The amount "available to be drawn" is before taking into account the financial covenant to maintain excess availability above \$35 million.

## EBITDA Sensitivities

<i>(\$millions)</i>	<u>EBITDA</u>
<b>Impact of US\$10/t change <sup>(1), (3)</sup></b>	
Specialty printing papers	\$ 13
Newsprint	11
Pulp	4
	<hr/>
	\$ 28
	<hr/>
<b>Impact of \$0.01 change in US\$ <sup>(2)</sup></b>	\$ 7
<b>Impact of 5% change in price of: <sup>(4)</sup></b>	
Natural gas and oil – direct purchases	\$ 1
Electricity – direct purchases	6
Coal	1
<b>Impact of US\$5/unit change <sup>(1), (4)</sup></b>	
Wood chips (Bdt)	\$ 5
ONP (ST)	3

<sup>(1)</sup> Based on f/x rate of US\$0.86.

<sup>(2)</sup> Based on Q2, 2009 annualized net cash flows and a movement from US\$0.86 to US\$0.87 and excluding the Company's hedging program and the impact of the Company's translation of US. dollar denominated debt.

<sup>(3)</sup> Based on full 2009 capacities.

<sup>(4)</sup> Based on Q2 2009 annualized consumption levels and exchange rate of US\$0.86.