



Second Quarter 2010 Earnings Presentation

Presented by:

Kevin J. Clarke, President and CEO
Brian Baarda, Vice-President Finance
and CFO

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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, 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 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; and
- 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 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.

Outline of Presentation

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



Financial Overview

	2009		2010		LTM
	Q3	Q4	Q1	Q2	
<i>(\$millions, except per share amounts)</i>					
Sales	\$ 266.9	\$ 295.0	\$ 273.3	\$ 299.4	\$ 1,134.6
EBITDA	25.9	14.1	(16.2)	(0.4)	23.4
Restructuring costs	–	1.4	14.1	10.9	26.4
EBITDA before specific items	\$ 25.9	\$ 15.5	\$ (2.1)	\$ 10.5	\$ 49.8
<i>EBITDA margin before specific items</i>	9.7%	5.3%	(0.8)%	3.5%	4.4%
Net earnings (loss) attributable to the Company	\$ 13.2	\$ (35.8)	\$ (44.1)	\$ (368.4)	\$ (435.1)
Net earnings (loss) attributable to the Company before specific items	\$ (19.8)	\$ (21.8)	\$ (37.6)	\$ (43.9)	\$ (123.1)
<i>Net earnings (loss) per share attributable to the Company's common shareholders before specific items</i>	\$ (0.05)	\$ (0.06)	\$ (0.10)	\$ (0.11)	\$ (0.32)

Q2 2010 Overview

- Kevin J. Clarke was appointed President and Chief Executive Officer effective June 21, 2010. Denis Jean, who held this position on an interim basis following the resignation of Richard Garneau, continues as a member of the Board of directors.
- Overall, market conditions improved for all paper grades due to stabilizing North American demand, strong export shipments and relatively low inventory levels.
- We partially implemented our announced specialty printing papers and newsprint price increases relating to Q2 and expect to realize more of the paper price increases in the third quarter of 2010.
- Demand for coated and uncoated mechanical grades continued to recover; however, demand for directory paper remained weak while newsprint demand was flat.
- Led by strong demand from North America and Europe, NBSK pulp shipments increased and inventories remained at relatively low levels due, in part, to Q1 supply interruptions.
- Pulp price increases announced for Q1 and the US\$90 per tonne increase announced for April 2010 were fully implemented by end of Q2.

2010 Overview, continued

- We announced the permanent closure of the Elk Falls mill and the Coquitlam paper recycling facility effective September 2010 due to weak markets for commodity paper grades and uncompetitive cost structures. These closures are expected to result in cost savings of approximately \$13 million in 2011, and further savings are expected as the assets of these facilities are disposed of.
- Our results for Q2 were negatively affected by impairment, severances and other closure charges of \$302.0 million related to the permanent closures of these facilities.
- EBITDA improved compared to the first quarter, reflecting modest improvements to paper prices and continued improvement to pulp prices, although these effects were partly offset by higher labour and other input costs and a higher Canadian dollar.
- Q2 EBITDA before specific items of \$10.5 million was \$12.6 million higher than EBITDA before specific items of negative \$2.1 million in Q1 and net loss attributable to the Company before specific items of \$43.9 million in Q2 compared to net loss attributable to the Company before specific items of \$37.6 million in Q1.

2010 Overview, continued

- During the quarter we did not provide for any tax benefits associated with the impairment, severances and other closure costs of \$302.0 million. We also provided for a valuation allowance of \$90.7 million on our future tax assets. As a result, the effective tax rate for the quarter was nil.
- The second line of pulp production at Crofton was restarted in April 2010, and we incurred an additional \$2.7 million in maintenance costs related to the startup compared to \$2.3 million in Q1.

Q2 2010 Production Curtailment (000 tonnes)	Specialty printing papers	Newsprint	Market pulp	Total
Crofton	—	34.9	7.2	42.1
Elk Falls	38.0	93.1	—	131.1
Total	38.0	128.0	7.2	173.2
Curtailment as a % of total capacity ¹	14%	52%	8%	28%

¹ Total capacity includes Elk Falls mill capacity of 153,000 tonnes of specialty printing papers and 373,000 tonnes of newsprint on an annualized basis.

- On May 19, 2010, we closed the private placement of US\$110 million of Class B, 11% senior secured notes due December 15, 2016 at an offering price of 86% of the principal amount, generating net proceeds of \$93.4 million, after financing costs of approximately \$5 million.

Update on 2010 Key Priorities

Focus on cash flows and liquidity:

- Free cash flow was negative \$21.9 million, and liquidity increased by \$88.8 million largely due to net proceeds generated from the private placement of the Class B, 11% senior secured notes; and
- Expended \$2.8 million towards capital projects in Q2, in line with previously announced expectations for spending in 2010.

Match production to customer orders and keep inventories at appropriate levels:

- Returned our pulp production to full capacity given improved market conditions; and
- Continued to curtail newsprint production in response to the steady decline in demand over the last several years. Paper curtailment represented approximately 32% of capacity and paper finished goods inventory levels as at June 30, 2010 of 48,100 tonnes compared to 46,500 tonnes at March 31, 2010, and a quarterly average of 54,100 tonnes for 2009.

Develop higher-value grades at the B.C. mills and produce 100% recycled high-bright and directory grades at the Snowflake mill:

- Developed Electrabrite Book, our new book grade at our Powell River mill;
- Developed Electracote Brite, our new coated grade at our Port Alberni mill; and
- Developed Electrabrite Lite at our Snowflake mill, a 100% recycled and FSC certified grade, ideal for environmentally conscious retailers.

Update on 2010 Key Priorities

Implement initiatives to reduce fixed costs:

- Seeking leave to appeal to the Supreme Court of Canada in response to the B.C. Court of Appeal's dismissal of the North Cowichan 2009 property tax petition and filed a petition with the Supreme Court of B.C. with respect to the 2010 North Cowichan property taxes;
- Filed a petition with the B.C. Supreme Court related to the Strathcona Regional District portion of the City of Campbell River's 2010 property taxes;
- Mill fixed costs increased \$4.2 million compared to the prior quarter, due to higher power costs, increased maintenance and labour costs due to the restart of the second pulp production line at Crofton and a union contract wage increase effective May 2010; and
- Announced the permanent closure of our Elk Falls mill and Coquitlam paper recycling facility. Our priority will be to reduce the fixed costs associated with maintaining these sites starting in Q3.

Update on 2010 Key Priorities

Continue to implement plans to reduce labour costs to \$80 per tonne at all mills and develop more flexible and efficient work practices:

- Continued to address legacy costs and other issues with the local unions at each of our operating sites and to adjust manning and work practices at our mills to reduce manufacturing costs and gain competitiveness.

Improve the safety performance at all mills, with a target lost time incident (“LTI”) rate of 1.0 and medical injury rate (“MIR”) of 3.0:

- Continued to focus on workplace and work practice audits, although results were mixed: the LTI rate for Q2 deteriorated from 1.2 in Q1 to 1.8, while the MIR for Q2 improved from 5.7 in Q1 to 3.0.

EBITDA Reconciliation – Q2 2010 vs. Q1 2010

<i>(\$millions)</i>	<u>EBITDA¹</u>
Q1, 2010 EBITDA¹	\$ (16.2)
Restructuring costs	14.1
Q1, 2010 EBITDA before specific items¹	(2.1)
Paper prices	5.1
Pulp prices	9.4
Impact of CDN\$ on sales, inclusive of hedging ²	(3.0)
Volume and mix	9.9
Furnish mix and costs	(4.6)
Other variable costs	1.7
Fixed costs	(4.6)
Lower of cost or market impact on inventory, net of inventory change	(1.5)
Other, net	0.2
Q2, 2010 EBITDA before specific items¹	10.5
Restructuring costs	(10.9)
Q2, 2010 EBITDA¹	<u>\$ (0.4)</u>

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

² Estimated total impact on EBITDA of average foreign exchange effective rate movement period-to-period is negative \$3 million.

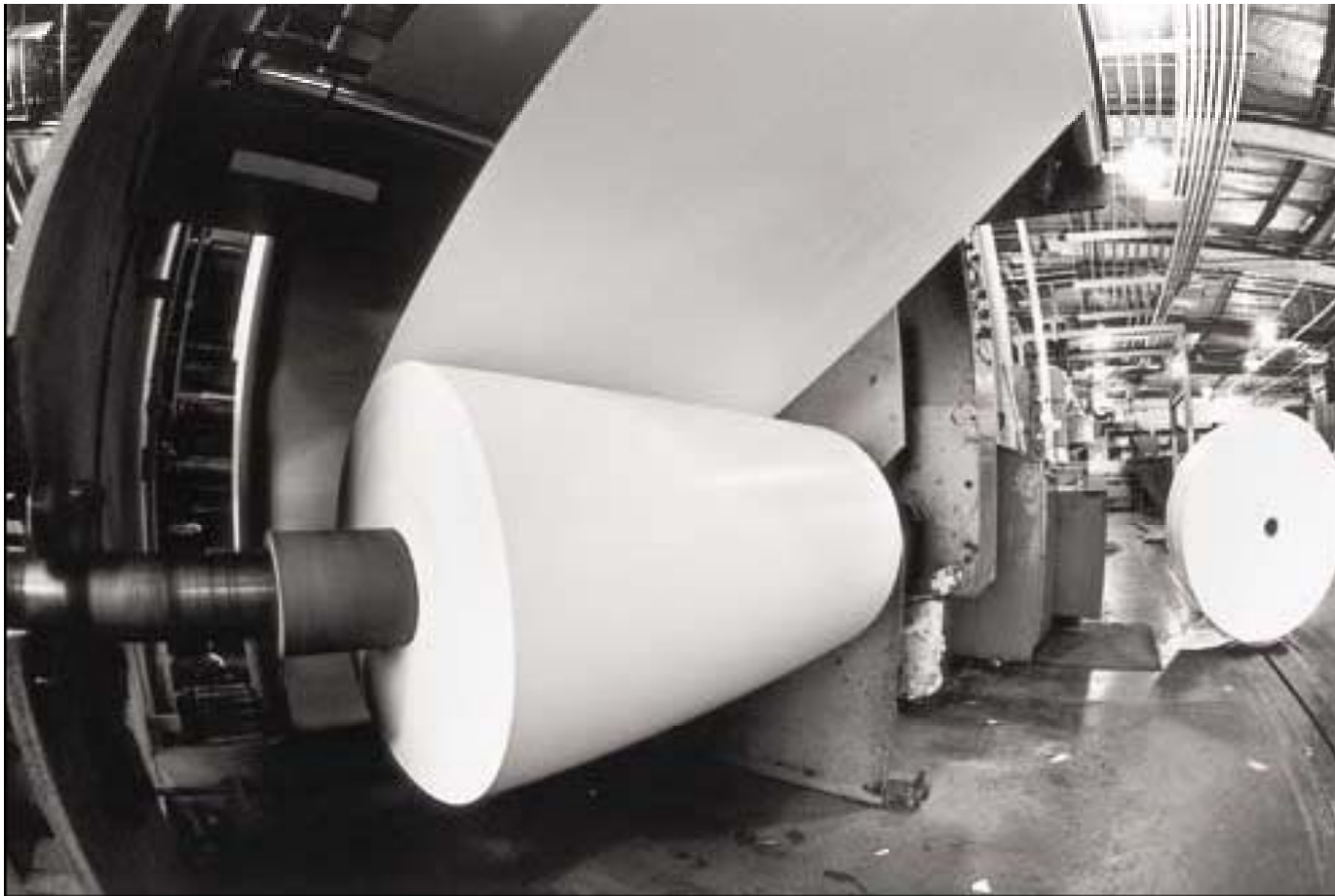
Outlook and Near-Term Focus

- We continue to expect modest improvements to market conditions for our paper products for the balance of 2010.
- Contract prices for coated and uncoated mechanical grades will increase in July 2010 and prices should remain firm in the next quarter as Q3 is traditionally a strong quarter for shipments and demand.
- For directory paper, year-over-year improvement in industry operating rates, higher input costs and lower inventory levels in Q2 led to an announced price increase of US\$70 per short ton for all directory grade sales not under contract for effect July 1, 2010.
- We continue to expect modest improvements to newsprint markets in Q3 and announced a US\$40 per tonne price increase for U.S. newsprint shipments for effect September 1, 2010.
- We expect that pulp prices will soften in the coming quarter.
- Despite improving market conditions and continued fixed cost savings, our net earnings, cash flows, and liquidity in coming quarters will continue to be under pressure by the strength of the Canadian dollar and rising fibre and other input costs.
- We continue to project \$20 million for capital spending in 2010.

Outlook and Near-Term Focus, continued

- The permanent closure of our Elk Falls mill in September 2010 will remove 373,000 tonnes of newsprint capacity and 153,000 tonnes of specialty printing papers capacity on an annualized basis and, as a result, our combined annual production capacity will decrease from 2,507,000 tonnes to 1,981,000 tonnes of pulp and paper product.
- Based on our revised annualized production capacity, we forecast that our Q3 production curtailment will be 35,300 tonnes of newsprint at our Crofton mill, or 23% of total newsprint capacity in Q3.

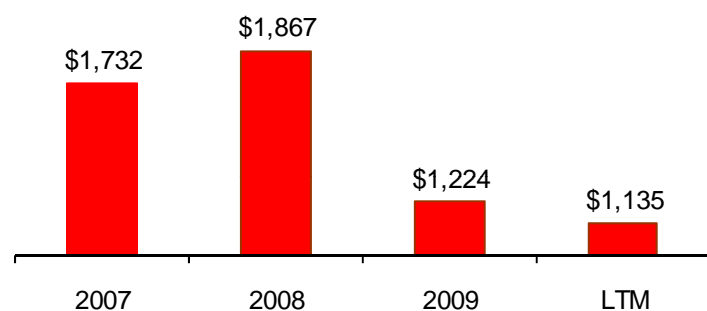
Financial Summary



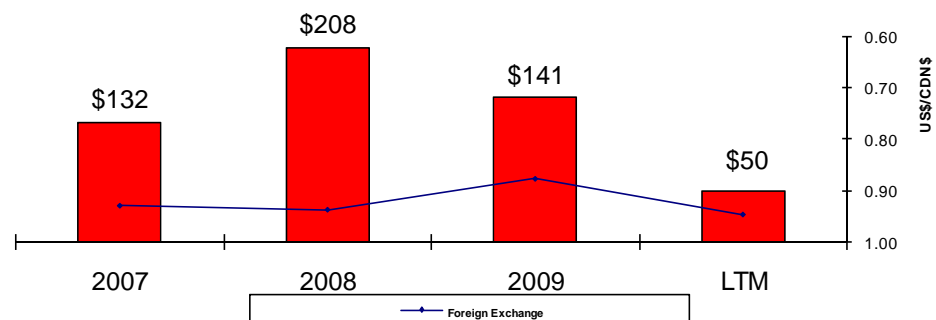
Summary of Historical Financials

(\$millions)

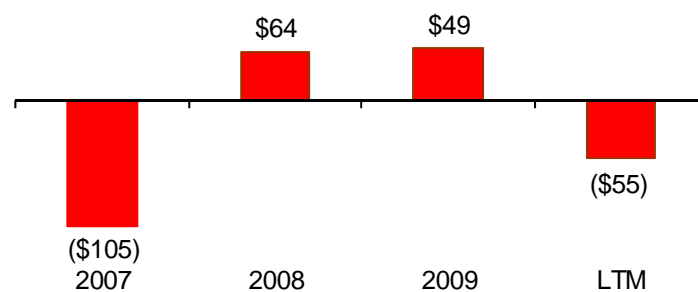
Sales



EBITDA before specific items



Free cash flow



Summary of Financial Results

(\$millions)	2009		2010		LTM
	Q3	Q4	Q1	Q2	
Sales	\$ 266.9	\$ 295.0	\$ 273.3	\$ 299.4	\$ 1,134.6
Cost of sales and SG&A	(241.0)	(279.5)	(275.4)	(288.9)	(1,084.8)
EBITDA before specific items	25.9	15.5	(2.1)	10.5	49.8
Specific items:					
Restructuring costs	–	(1.4)	(14.1)	(10.9)	(26.4)
EBITDA	\$ 25.9	\$ 14.1	\$ (16.2)	\$ (0.4)	\$ 23.4
Average F/X spot rate (USD/CAD)	0.911	0.947	0.961	0.973	0.948

Summary of Segmented Financial Information

	2009		2010		LTM
	Q3	Q4	Q1	Q2	
<i>(\$millions, except where otherwise stated)</i>					
Sales (000 MT)					
Specialty printing papers	232.9	239.0	206.2	208.9	887.0
Newsprint	113.5	118.3	123.1	123.1	478.0
Pulp	–	38.4	54.9	72.5	165.8
	<u>346.4</u>	<u>395.7</u>	<u>384.2</u>	404.5	1,530.8
Sales					
Specialty printing papers	\$ 205.3	\$ 202.7	\$ 164.1	\$ 165.1	\$ 737.2
Newsprint	61.6	66.5	69.5	73.1	270.7
Pulp	–	25.8	39.7	61.2	126.7
	<u>\$ 266.9</u>	<u>\$ 295.0</u>	<u>\$ 273.3</u>	\$ 299.4	\$ 1,134.6
EBITDA					
Specialty printing papers	\$ 36.3	\$ 22.0	\$ 1.0	\$ 2.2	\$ 61.5
Newsprint	(8.3)	(9.6)	(18.2)	(14.2)	(50.3)
Pulp	(2.1)	1.7	1.0	11.6	12.2
	<u>\$ 25.9</u>	<u>\$ 14.1</u>	<u>\$ (16.2)</u>	\$ (0.4)	\$ 23.4
EBITDA before specific items					
Specialty printing papers	\$ 35.8	\$ 22.4	\$ 5.8	\$ 5.5	\$ 69.5
Newsprint	(8.1)	(9.4)	(9.7)	(6.7)	(33.9)
Pulp	(1.8)	2.5	1.8	11.7	14.2
	<u>\$ 25.9</u>	<u>\$ 15.5</u>	<u>\$ (2.1)</u>	\$ 10.5	\$ 49.8
Operating earnings (loss)					
Specialty printing papers	\$ 11.9	\$ (1.4)	\$ (20.3)	\$ (120.1)	\$ (129.9)
Newsprint	(18.3)	(38.2)	(26.3)	(211.8)	(294.6)
Pulp	(3.6)	(1.5)	(2.3)	8.0	(0.6)
	<u>\$ (10.0)</u>	<u>\$ (41.1)</u>	<u>\$ (48.9)</u>	\$ (323.9)	\$ (425.1)

Impact of Specific Items on Net Earnings (Loss) Attributable to the Company

	2009		2010		LTM
	Q3	Q4	Q1	Q2	
<i>(\$millions, except per share amounts)</i>					
Net earnings (loss) attributable to the Company as reported	\$ 13.2	\$ (35.8)	\$ (44.1)	\$ (368.4)	\$ (435.1)
Specific items, after taxes:					
Foreign exchange loss (gain) on long-term debt	(33.0)	(9.5)	(11.7)	21.3	(32.9)
Impairment and loss on disposal	–	13.1	–	292.3	305.4
Restructuring costs	–	1.0	10.1	10.9	22.0
Notes exchange costs	–	1.5	5.9	–	7.4
Income tax adjustments	–	7.9	2.2	–	10.1
Net earnings (loss) attributable to the Company before specific items	<u>\$ (19.8)</u>	<u>\$ (21.8)</u>	<u>\$ (37.6)</u>	<u>\$ (43.9)</u>	<u>\$ (123.1)</u>
Net earnings (loss) per share attributable to the Company's common shareholders before specific items	\$ (0.05)	\$ (0.06)	\$ (0.10)	\$ (0.11)	\$ (0.32)

Capitalization

(\$millions, except where otherwise stated)

	2009 Dec 31	2010 June 30
Total debt		
8.625% senior notes, due June 2011 ⁽¹⁾	\$ 372	\$ 38
7.375% senior notes, due March 2014 ⁽²⁾	265	269
11.0% senior secured notes, due December 2016 ⁽³⁾	–	297
11.0% Class B senior secured notes, due December 2016 ⁽⁴⁾		101
Modification – difference in carrying value of 8.625% and 11.0% senior secured notes on exchange ⁽⁵⁾	–	38
Revolving asset based loan	15	–
Capital lease obligation	11	11
Other non-recourse (PREI)	113	114
Total	776	868
Shareholders' equity attributable to the Company	814	422
Total capitalization attributable to the Company	\$ 1,590	\$ 1,290
Cash	\$ 83	\$ 101
Net debt ratio ⁽⁶⁾	46%	65%

⁽¹⁾ US\$36 million; 2009 - US\$354 million

⁽²⁾ US\$250 million

⁽³⁾ US\$280 million; 2009 - \$nil

⁽⁴⁾ US\$110 million; 2009 - \$nil

⁽⁵⁾ US\$38 million; 2009 - \$nil

⁽⁶⁾ 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)

Free Cash Flow

(\$millions)	2009		2010		LTM
	Q3	Q4	Q1	Q2	
Summarized cash flow					
EBITDA before specific items	\$ 25.9	\$ 15.5	\$ (2.1)	\$ 10.5	\$ 49.8
Specific items	–	(1.4)	(14.1)	(10.9)	(26.4)
EBITDA	25.9	14.1	(16.2)	(0.4)	23.4
Interest expense, excluding amortization	(15.9)	(15.9)	(16.5)	(18.5)	(66.8)
Capital expenditures	(1.0)	(4.7)	(3.2)	(2.8)	(11.7)
Income taxes received (paid)	0.3	(0.1)	0.1	0.1	0.4
Employee future benefits, net of funding	–	0.8	(0.8)	(0.3)	(0.3)
Free cash flow	\$ 9.3	\$ (5.8)	\$ (36.6)	\$ (21.9)	\$ (55.0)

Liquidity

(\$millions)	2009		2010	
	Q3	Q4	Q1	Q2
Borrowing base	\$ 151.5	\$ 147.9	\$ 144.8	\$ 167.8
Letters of credit	(24.2)	(24.1)	(24.0)	(25.3)
Net amount drawn	(25.0)	(14.5)	(25.0)	—
Minimum excess availability	(35.0)	(35.0)	(35.0)	(35.0)
Available to be drawn ^{(1), (2)}	67.3	74.3	60.8	107.5
Cash on hand	90.6	83.1	58.7	100.8
Total liquidity	<u>\$ 157.9</u>	<u>\$ 157.4</u>	<u>\$ 119.5</u>	<u>\$ 208.3</u>

- (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 June 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 June 30, 2010 amounted to \$19.1 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 \$142.5 million at June 30, 2010, as disclosed in note 9, "Long-term debt" of our interim consolidated financial statements for the three and six months ended June 30, 2010.

EBITDA Sensitivities

(\$millions)

Impact of US\$10/t change ^{(1), (2)}

Specialty printing papers
Newsprint
Pulp

	EBITDA
\$	9
	5
	3
\$	17

Impact of \$0.01 change in US\$ ⁽³⁾

5

Impact of 5% change in price of: ^{(1), (4)}

Natural gas and oil – direct purchases
Electricity – direct purchases
Coal

1
6
1

Impact of US\$5/unit change ^{(1), (4)}

Wood chips (Bdt)
ONP (ST)

8
2

(1) Based on a foreign exchange rate of US\$0.97.

(2) Based on sales of Q2 2010 annualized production.

(3) Based on Q2 2010 annualized net cash flows and a foreign exchange movement to US\$0.98 from US\$0.97 and excluding our hedging program and the impact of the translation of U.S. dollar denominated debt.

(4) Based on annualized Q2 2010 consumption levels.