



Third 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 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.



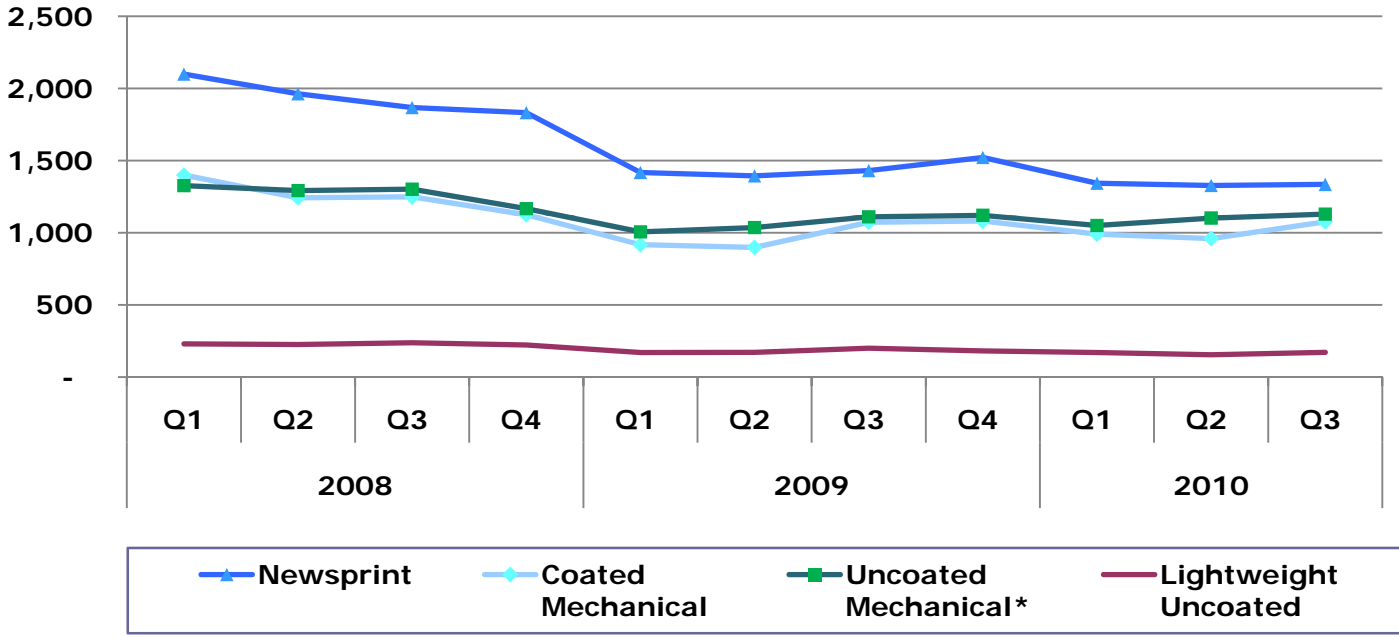
Q3 Presentation Outline

- Business Overview and Outlook
- Financial Results

Q3 2010 Highlights

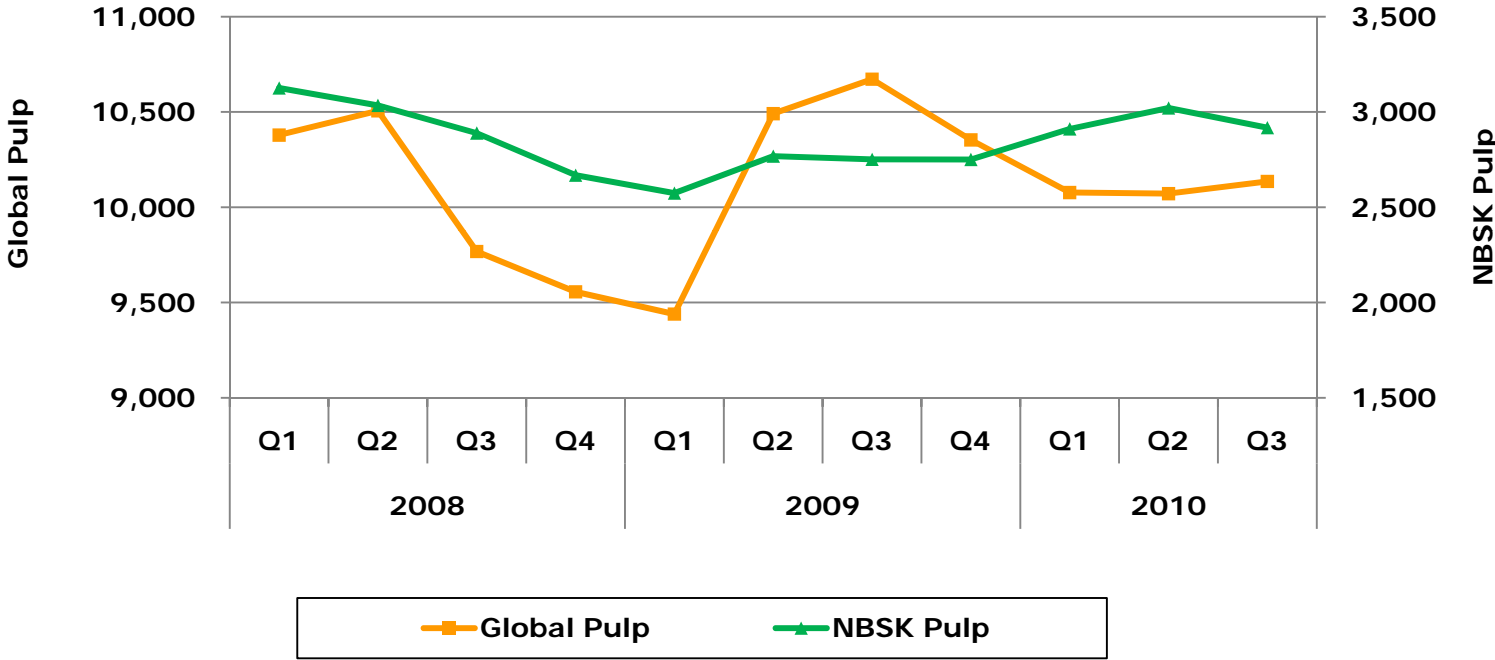
Financials <ul style="list-style-type: none">– Achieved \$34M in EBITDA– \$33M improvement in free cash flow compared to prior quarter– Cash availability of \$184 million was down \$24M from prior quarter due to buyback of 2011 Senior Notes, payment of B.C. property taxes and severances	
Operations 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

North American Paper Demand (in thousands of tonnes)



Source: PPPC

Global and NBSK Pulp Shipments (in thousands of tonnes)



Source: PPC

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
Property Taxation	Continue to advocate for durable solution given competitive investment climate

Outlook

- Benchmark prices for mechanical printing papers expected to improve into Q4 and 2011 despite industry restructuring and economic headwinds
- Global pulp shipments and prices expected to soften in Q4 with upward pressure on inventories
- Capital spending for 2010 to be in range of \$17M, with Green Transformation credits of \$18M for qualifying projects expected in 2011
- Strong Canadian dollar and higher input costs will put pressure on net earnings, cash flows, and liquidity
- Strategic focus on product development, operational efficiency, innovation and cash management

Q3 2010 Financial Results

	2009	2010			LTM
	Q4	Q1	Q2	Q3	
<i>(\$millions, except per share amounts)</i>					
Sales	\$ 295.0	\$ 273.3	\$ 299.4	\$ 322.3	\$ 1,190.0
EBITDA	14.1	(16.2)	(0.4)	34.2	31.7
Restructuring costs	1.4	14.1	10.9	0.3	26.7
EBITDA before specific items	\$ 15.5	\$ (2.1)	\$ 10.5	\$ 34.5	\$ 58.4
<i>EBITDA margin before specific items</i>	5.3%	(0.8)%	3.5%	10.7%	4.9%
Net earnings (loss) attributable to the Company	\$ (35.8)	\$ (44.1)	\$ (368.4)	\$ 6.0	\$ (442.3)
Net earnings (loss) attributable to the Company before specific items	\$ (21.8)	\$ (37.6)	\$ (43.9)	\$ (9.6)	\$ (112.9)
<i>Net earnings (loss) per share attributable to the Company's common shareholders</i>	\$ (0.09)	\$ (0.12)	\$ (0.96)	\$ 0.02	\$ (1.15)
<i>Net earnings (loss) per share attributable to the Company's common shareholders before specific items</i>	\$ (0.06)	\$ (0.10)	\$ (0.11)	\$ (0.03)	\$ (0.30)
Average F/X spot rate (USD/CAD)	0.947	0.961	0.973	0.962	0.961

EBITDA Reconciliation – Q3 2010 vs. Q2 2010

<i>(\$millions)</i>	<u>EBITDA¹</u>
Q2, 2010 EBITDA¹	\$ (0.4)
Restructuring costs	10.9
Q2, 2010 EBITDA before specific items¹	10.5
Paper prices	14.2
Pulp prices	2.2
Impact of CDN\$ on sales, inclusive of hedging ²	0.3
Volume and mix	4.3
Lower of cost or market impact on inventory, net of inventory change	2.7
Other, net	0.3
Q3, 2010 EBITDA before specific items¹	34.5
Restructuring costs	(0.3)
Q3, 2010 EBITDA¹	<u>\$ 34.2</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 \$0.2 million.

Q3 2010 Free Cash Flow

(\$millions)	2009	2010			LTM
	Q4	Q1	Q2	Q3	
Summarized cash flow					
EBITDA before specific items	\$ 15.5	\$ (2.1)	\$ 10.5	\$ 34.5	\$ 58.4
Specific items	(1.4)	(14.1)	(10.9)	(0.3)	(26.7)
EBITDA	14.1	(16.2)	(0.4)	34.2	31.7
Interest expense, excluding amortization	(15.9)	(16.5)	(18.5)	(19.2)	(70.1)
Capital expenditures	(4.7)	(3.2)	(2.8)	(2.4)	(13.1)
Income taxes received (paid)	(0.1)	0.1	0.1	(0.4)	(0.3)
Employee future benefits, net of funding	0.8	(0.8)	(0.3)	(1.2)	(1.5)
Free cash flow	\$ (5.8)	\$ (36.6)	\$ (21.9)	\$ 11.0	\$ (53.3)

Q3 2010 Liquidity

(\$millions)	2009	2010		
	Q4	Q1	Q2	Q3
Borrowing base ⁽¹⁾	\$ 147.9	\$ 144.8	\$ 167.8	\$ 161.7
Letters of credit	(24.1)	(24.0)	(25.3)	(25.1)
Net amount drawn	(14.5)	(25.0)	—	—
Minimum excess availability	<u>(35.0)</u>	<u>(35.0)</u>	<u>(35.0)</u>	<u>(35.0)</u>
Available to be drawn ^{(2), (3)}	74.3	60.8	107.5	101.6
Cash on hand	<u>83.1</u>	<u>58.7</u>	<u>100.8</u>	<u>82.3</u>
Total liquidity	<u>\$ 157.4</u>	<u>\$ 119.5</u>	<u>\$ 208.3</u>	<u>\$ 183.9</u>

(1) Q4 2009 and Q3 2010 include a reserve of \$15.1 million and \$4.4 million, respectively, for unpaid property taxes.

(2) Our ABL Facility is subject to certain financial covenants as disclosed in our interim consolidated financial statements for the three and nine months ended September 30, 2010, in note 9, *Long-term debt*.

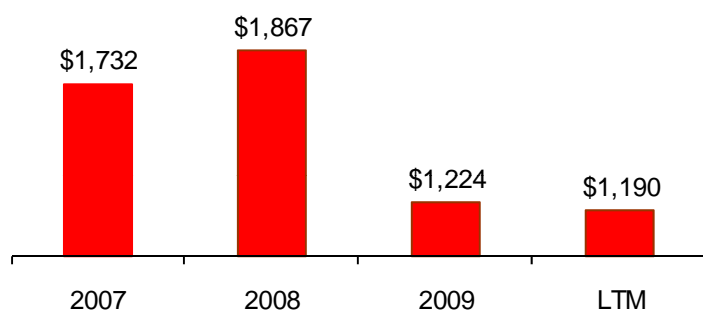
(3) Under the terms of the ABL Facility, various reserves may be deducted from the borrowing base. A reserve in respect of vacation pay obligations, which as at September 30, 2010 amounted to \$18.8 million, may be imposed if Excess Availability, as defined in the ABL Facility, is below a threshold of \$75 million. Excess Availability under this definition was \$136.6 million at September 30, 2010, as disclosed in note 9, *Long-term debt* of our interim consolidated financial statements for the three and nine months ended September 30, 2010.

Appendix

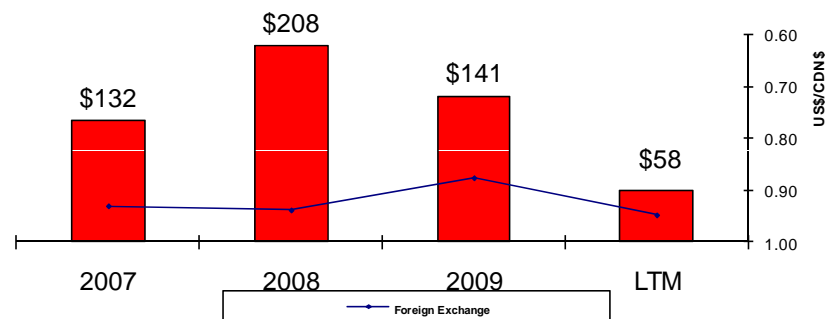
Q3 2010 Financial Summary

(\$millions)

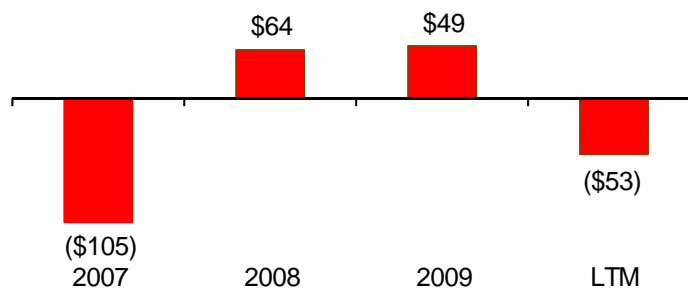
Sales



EBITDA before specific items



Free cash flow



Summary of Segmented Financial Information

(\$millions, except where otherwise stated)

	2009	2010			LTM
	Q4	Q1	Q2	Q3	
Sales (000 MT)					
Specialty printing papers	239.0	206.2	208.9	220.6	874.7
Newsprint	118.3	123.1	123.1	122.3	486.8
Pulp	38.4	54.9	72.5	69.2	235.0
	395.7	384.2	404.5	412.1	1,596.5
Sales					
Specialty printing papers	\$ 202.7	\$ 164.1	\$ 165.1	\$ 181.8	\$ 713.7
Newsprint	66.5	69.5	73.1	79.7	288.8
Pulp	25.8	39.7	61.2	60.8	187.5
	\$ 295.0	\$ 273.3	\$ 299.4	\$ 322.3	\$ 1,190.0
EBITDA					
Specialty printing papers	\$ 22.0	\$ 1.0	\$ 2.2	\$ 19.5	\$ 44.7
Newsprint	(9.6)	(18.2)	(14.2)	3.0	(39.0)
Pulp	1.7	1.0	11.6	11.7	26.0
	\$ 14.1	\$ (16.2)	\$ (0.4)	\$ 34.2	\$ 31.7
EBITDA before specific items					
Specialty printing papers	\$ 22.4	\$ 5.8	\$ 5.5	\$ 19.6	\$ 53.3
Newsprint	(9.4)	(9.7)	(6.7)	3.1	(22.7)
Pulp	2.5	1.8	11.7	11.8	27.8
	\$ 15.5	\$ (2.1)	\$ 10.5	\$ 34.5	\$ 58.4
Operating earnings (loss)					
Specialty printing papers	\$ (1.4)	\$ (20.3)	\$ (120.1)	\$ (1.8)	\$ (143.6)
Newsprint	(38.2)	(26.3)	(211.8)	(1.1)	(277.4)
Pulp	(1.5)	(2.3)	8.0	8.0	12.2
	\$ (41.1)	\$ (48.9)	\$ (323.9)	\$ 5.1	\$ (408.8)

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

(\$millions, except per share amounts)	2009	2010			LTM
	Q4	Q1	Q2	Q3	
Net earnings (loss) attributable to the Company as reported	\$ (35.8)	\$ (44.1)	\$ (368.4)	\$ 6.0	\$ (442.3)
Specific items, after taxes:					
Foreign exchange loss (gain) on long-term debt	(9.5)	(11.7)	21.3	(16.3)	(16.2)
Impairment and loss on disposal	13.1	–	292.3	0.9	306.3
Restructuring costs	1.0	10.1	10.9	0.3	22.3
Gain on cancellation of long-term debt	–	–	–	(0.5)	(0.5)
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>\$ (21.8)</u>	<u>\$ (37.6)</u>	<u>\$ (43.9)</u>	<u>\$ (9.6)</u>	<u>\$ (112.9)</u>
Net earnings (loss) per share attributable to the Company's common shareholders before specific items	\$ (0.06)	\$ (0.10)	\$ (0.11)	\$ (0.03)	\$ (0.30)

Capitalization

(\$millions, except where otherwise stated)

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

⁽¹⁾ US\$26 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)

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⁾

6

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\$0.96.

(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.