

A photograph of a paper mill with large rolls of paper and machinery, overlaid with a semi-transparent red filter. The text is centered in white.

# Fourth 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 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 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.






## Q4 2010 Presentation Outline

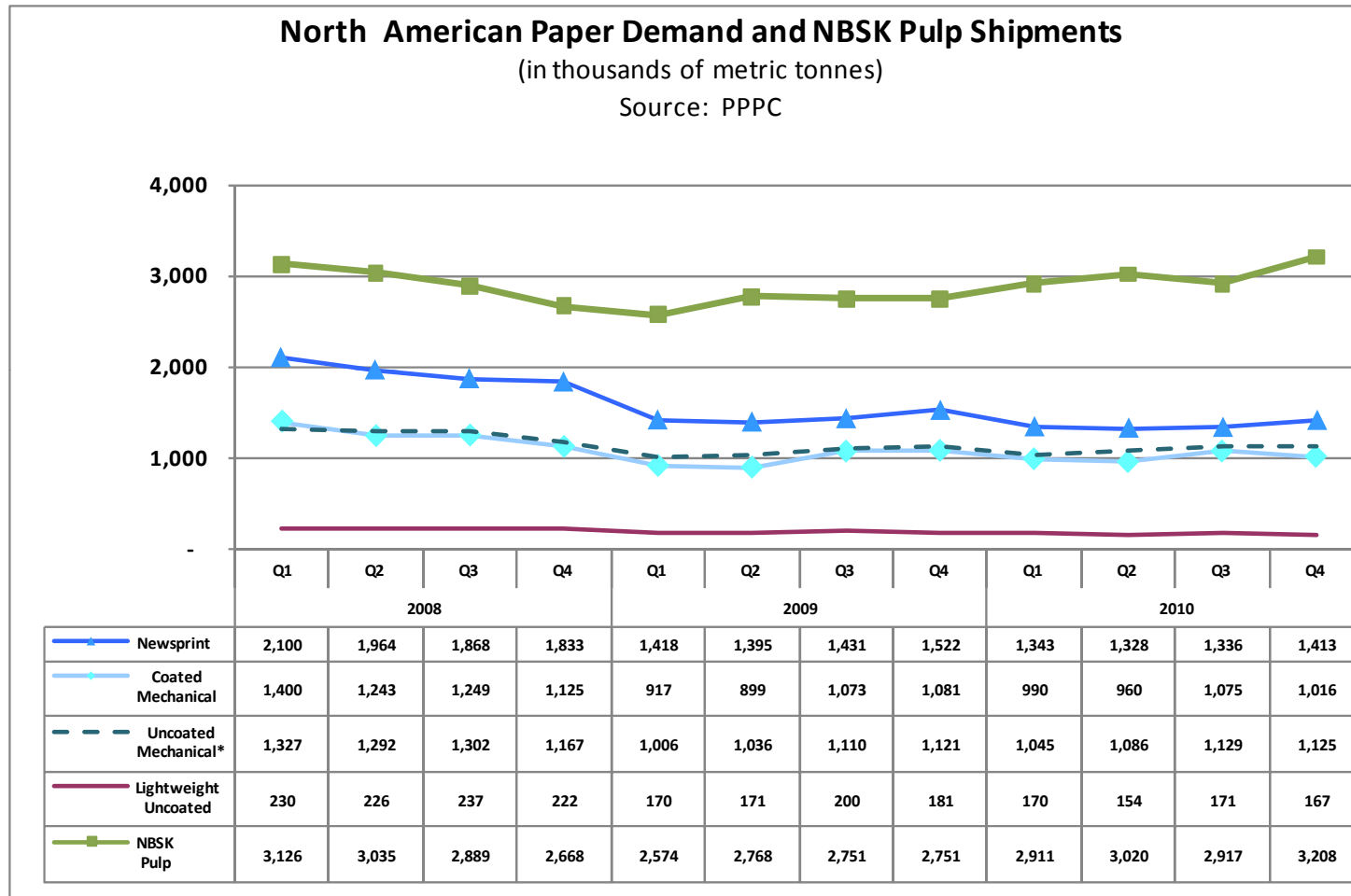


- Business Overview and Outlook
- Financial Results

# Q4 2010 Highlights

|   |  |
|---|--|
| <h2>Financials</h2> <ul style="list-style-type: none"><li>- Achieved \$29M in EBITDA</li><li>- \$7M free cash flow in Q4 2010</li><li>- Liquidity improved by \$14 million from prior quarter before taking into account new \$8 million reserve on the 2011 outstanding bonds</li></ul>  |   |
| <h2>Operations</h2> <ul style="list-style-type: none"><li>- 12,700 tonnes higher market pulp production over prior quarter</li><li>- Production records at our Port Alberni and Powell River mills</li></ul>  |   |
| <h2>Sales and Marketing</h2> <ul style="list-style-type: none"><li>- Introduced Sage, a line of environmentally friendly papers in Q4 2010</li><li>- Aggressively targeted current and new customers to support our product improvement program<ul style="list-style-type: none"><li>• Company's sales force continues to renew and land new business and has made excellent progress in penetrating these marketplaces</li></ul></li></ul> |  |

# North American Paper Demand and NBSK Pulp Shipments (in thousands of tonnes)



\* Uncoated mechanical is comprised of high-gloss and standard grades.



## Q4 2010 Challenges

|                                 |   |
|---------------------------------|---|
| Commodity Curtailment           | Crofton No.1 paper machine remained idled reducing capacity by 35,300 tonnes                                  |
| Labour Costs and Work Practices | Continued discussions to explore opportunities to reduce costs related to our collective agreements           |
| Property Taxation               | Continued to seek competitive business conditions in B.C. including joint municipal infrastructure agreements |



# Outlook

- Global growth expected to continue in 2011 driven by emerging markets; slow recovery of U.S. economy will depend on rate of rebound in consumer confidence and spending
- 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; US\$60/st increase on SC paper and US\$40/st increase on our coated paper announced for April 1<sup>st</sup>
- Benchmark prices for NBSK pulp expected to increase in 2011 supported by steady demand from China, North America and Europe
- \$35M in capital spending for 2011 expected in addition to \$18M for two federally funded projects, \$5M upgrade at Port Alberni and \$13M at Powell River, focused on energy efficiencies
- Strategic focus continues on product development, operational efficiency, innovation and cash management



# Q4 2010 Financial Results

|  | 2009<br>Total | 2010      |            |           |          | 2010<br>Total |
|--|---------------|-----------|------------|-----------|----------|---------------|
|  |               | Q1        | Q2         | Q3        | Q4       |               |
| <i>(\$millions, except per share amounts)</i>  |               |           |            |           |          |               |
| Sales  | \$ 1,223.5    | \$ 273.3  | \$ 299.4   | \$ 322.3  | \$ 333.6 | \$ 1,228.6    |
| EBITDA   | 123.2         | (16.2)    | (0.4)      | 34.2      | 28.7     | 46.3          |
| Restructuring costs  | 17.9          | 14.1      | 10.9       | 0.3       | –        | 25.3          |
| EBITDA before specific items   | \$ 141.1      | \$ (2.1)  | \$ 10.5    | \$ 34.5   | \$ 28.7  | \$ 71.6       |
| <i>EBITDA margin before specific items</i>   | 11.5%         | (0.8)%    | 3.5%       | 10.7%     | 8.6%     | 5.8%          |
| Net earnings (loss) attributable to the Company  | \$ (4.4)      | \$ (44.1) | \$ (368.4) | \$ 6.0    | \$ 9.6   | \$ (396.9)    |
| Net earnings (loss) attributable to the Company before specific items  | \$ (58.8)     | \$ (37.6) | \$ (43.9)  | \$ (9.6)  | \$ 4.1   | \$ (87.0)     |
| <i>Net earnings (loss) per share attributable to the Company's common shareholders</i>                       | \$ (0.01)     | \$ (0.12) | \$ (0.96)  | \$ 0.02   | \$ 0.02  | \$ (1.04)     |
| <i>Net earnings (loss) per share attributable to the Company's common shareholders before specific items</i> | \$ (0.15)     | \$ (0.10) | \$ (0.11)  | \$ (0.03) | \$ 0.01  | \$ (0.23)     |
| Average F/X spot rate (USD/CAD)  | 0.876         | 0.961     | 0.973      | 0.962     | 0.987    | 0.971         |
| Average effective F/X rate (USD/CAD)   | 0.879         | 0.938     | 0.949      | 0.948     | 0.982    | 0.955         |

## EBITDA Reconciliation – Q4 2010 vs. Q3 2010

| <i>(\$millions)</i>   | <u>EBITDA <sup>(1)</sup></u> |
|---|------------------------------|
| <b>Q3 2010 EBITDA <sup>(1)</sup></b>                                    | <b>\$ 34.2</b>               |
| Restructuring costs   | 0.3                          |
| <b>Q3 2010 EBITDA before specific items <sup>(1)</sup></b>              | <b>34.5</b>                  |
| Paper prices  | 7.8                          |
| Pulp prices   | (4.5)                        |
| Impact of CDN\$ on sales, inclusive of hedging <sup>(2)</sup>           | (10.5)                       |
| Volume and mix  | 5.7                          |
| Furnish mix and costs   | 0.4                          |
| Lower of cost or market impact on inventory,<br>net of inventory change | (2.5)                        |
| Selling, general and administrative                                     | (1.1)                        |
| Other, net  | (1.1)                        |
| <b>Q4 2010 EBITDA before specific items <sup>(1)</sup></b>              | <b>28.7</b>                  |
| Restructuring costs   | -                            |
| <b>Q4 2010 EBITDA <sup>(1)</sup></b>                                    | <b><u>\$ 28.7</u></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 \$7 million.

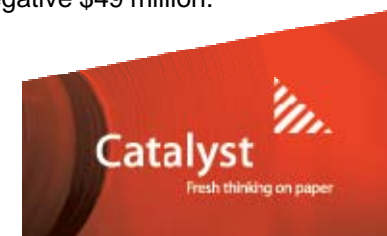


# EBITDA Reconciliation – Year 2010 vs. Year 2009

| <i>(\$millions)</i>   | <u>EBITDA <sup>(1)</sup></u> |
|---|------------------------------|
| <b>2009 EBITDA <sup>(1)</sup></b>                             | <b>\$ 123.2</b>              |
| Restructuring costs   | 17.9                         |
| <b>2009 EBITDA before specific items <sup>(1)</sup></b>       | <b>141.1</b>                 |
| Paper prices  | (51.7)                       |
| Pulp prices   | 66.6                         |
| Impact of CDN\$ on sales, inclusive of hedging <sup>(2)</sup> | (88.8)                       |
| Volume and mix  | 15.1                         |
| Furnish mix and costs   | (15.3)                       |
| Selling, general and administrative                           | 1.5                          |
| Other, net  | 3.1                          |
| <b>2010 EBITDA before specific items <sup>(1)</sup></b>       | <b>71.6</b>                  |
| Restructuring costs   | (25.3)                       |
| <b>2010 EBITDA <sup>(1)</sup></b>                             | <b>\$ 46.3</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 \$49 million.



## Q4 2010 Free Cash Flow

| (\$millions)                             | 2009           | 2010             |                  |                |               | 2010             |
|--|----------------|------------------|------------------|----------------|---------------|------------------|
|  | Total          | Q1               | Q2               | Q3             | Q4            | Total            |
| EBITDA before specific items             | \$ 141.1       | \$ (2.1)         | \$ 10.5          | \$ 34.5        | \$ 28.7       | \$ 71.6          |
| Specific items                           | (17.9)         | (14.1)           | (10.9)           | (0.3)          | –             | (25.3)           |
| EBITDA                                   | 123.2          | (16.2)           | (0.4)            | 34.2           | 28.7          | 46.3             |
| Interest expense, excluding amortization | (66.5)         | (16.5)           | (18.5)           | (19.2)         | (18.5)        | (72.7)           |
| Capital expenditures                     | (11.5)         | (3.2)            | (2.8)            | (2.4)          | (2.8)         | (11.2)           |
| Income taxes received (paid)             | (0.5)          | 0.1              | 0.1              | (0.4)          | (0.2)         | (0.4)            |
| Employee future benefits, net of funding | 4.3            | (0.8)            | (0.3)            | (1.2)          | (0.1)         | (2.4)            |
| <b>Free cash flow</b>                    | <b>\$ 49.0</b> | <b>\$ (36.6)</b> | <b>\$ (21.9)</b> | <b>\$ 11.0</b> | <b>\$ 7.1</b> | <b>\$ (40.4)</b> |

## Q4 2010 Liquidity

| (\$millions)                              | 2009     | 2010     |          |          |          |
|---|----------|----------|----------|----------|----------|
|   | Q4       | Q1       | Q2       | Q3       | Q4       |
| Borrowing base <sup>(1)</sup>             | \$ 147.9 | \$ 144.8 | \$ 167.8 | \$ 161.7 | \$ 152.4 |
| Letters of credit                         | (24.1)   | (24.0)   | (25.3)   | (25.1)   | (23.4)   |
| Net amount drawn                          | (14.5)   | (25.0)   | —        | —        | —        |
| Minimum excess availability               | (35.0)   | (35.0)   | (35.0)   | (35.0)   | (35.0)   |
| Available to be drawn <sup>(2), (3)</sup> | 74.3     | 60.8     | 107.5    | 101.6    | 94.0     |
| Cash on hand                              | 83.1     | 58.7     | 100.8    | 82.3     | 95.4     |
| Total liquidity                           | \$ 157.4 | \$ 119.5 | \$ 208.3 | \$ 183.9 | \$ 189.4 |

- (1) Q4 2009 and Q4 2010 include a reserve of \$15.1 million and \$4.4 million, respectively, for unpaid property taxes. Q4 2010 also includes a reserve of \$8.3 million for outstanding 8.625% senior notes in excess of US\$17.7 million.
- (2) Our ABL Facility is subject to certain financial covenants as disclosed in our consolidated financial statements for the year ended December 31, 2010, in note 14, *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 December 31, 2010 amounted to \$21.6 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 \$129.0 million at December 31, 2010, as disclosed in note 14, *Long-term debt* of our consolidated financial statements for the year ended December 31, 2010.

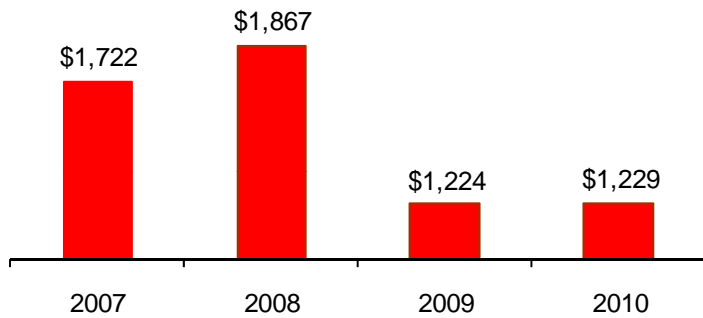


# Appendix

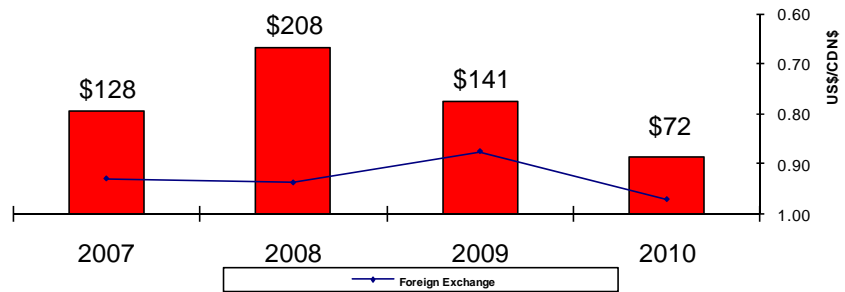
# Financial Summary

(\$millions)

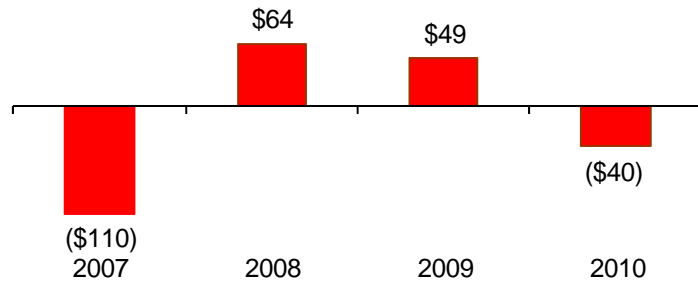
**Sales**



**EBITDA before specific items**



**Free cash flow**



# Summary of Segmented Financial Information

| (\$millions, except where otherwise stated) | 2009             | 2010             |                   |                 |                        | 2010                     |
|---|------------------|------------------|-------------------|-----------------|------------------------|--------------------------|
|   | Total            | Q1               | Q2                | Q3              | Q4                     | Total                    |
| <b>Sales (000 MT)</b>                       |                  |                  |                   |                 |                        |                          |
| Specialty printing papers                   | 896.5            | 206.2            | 208.9             | 220.6           | <b>231.3</b>           | <b>867.0</b>             |
| Newsprint                                   | 488.2            | 123.1            | 123.1             | 122.3           | <b>122.8</b>           | <b>491.3</b>             |
| Pulp  | 110.2            | 54.9             | 72.5              | 69.2            | <b>80.0</b>            | <b>276.6</b>             |
|   | <u>1,494.9</u>   | <u>384.2</u>     | <u>404.5</u>      | <u>412.1</u>    | <u><b>434.1</b></u>    | <u><b>1,634.9</b></u>    |
| <b>Sales</b>                                |                  |                  |                   |                 |                        |                          |
| Specialty printing papers                   | \$ 832.3         | \$ 164.1         | \$ 165.1          | \$ 181.8        | \$ <b>189.1</b>        | \$ <b>700.1</b>          |
| Newsprint                                   | 320.6            | 69.5             | 73.1              | 79.7            | <b>81.2</b>            | <b>303.5</b>             |
| Pulp  | 70.6             | 39.7             | 61.2              | 60.8            | <b>63.3</b>            | <b>225.0</b>             |
|   | <u>\$1,223.5</u> | <u>\$ 273.3</u>  | <u>\$ 299.4</u>   | <u>\$ 322.3</u> | <u>\$ <b>333.6</b></u> | <u>\$ <b>1,228.6</b></u> |
| <b>EBITDA</b>                               |                  |                  |                   |                 |                        |                          |
| Specialty printing papers                   | \$ 134.9         | \$ 1.0           | \$ 2.2            | \$ 19.5         | \$ <b>13.8</b>         | \$ <b>36.5</b>           |
| Newsprint                                   | (8.4)            | (18.2)           | (14.2)            | 3.0             | <b>1.2</b>             | <b>(28.2)</b>            |
| Pulp  | (3.3)            | 1.0              | 11.6              | 11.7            | <b>13.7</b>            | <b>38.0</b>              |
|   | <u>\$ 123.2</u>  | <u>\$ (16.2)</u> | <u>\$ (0.4)</u>   | <u>\$ 34.2</u>  | <u>\$ <b>28.7</b></u>  | <u>\$ <b>46.3</b></u>    |
| <b>EBITDA before specific items</b>         |                  |                  |                   |                 |                        |                          |
| Specialty printing papers                   | \$ 146.6         | \$ 5.8           | \$ 5.5            | \$ 19.6         | \$ <b>13.8</b>         | \$ <b>44.7</b>           |
| Newsprint                                   | (5.4)            | (9.7)            | (6.7)             | 3.1             | <b>1.2</b>             | <b>(12.1)</b>            |
| Pulp  | (0.1)            | 1.8              | 11.7              | 11.8            | <b>13.7</b>            | <b>39.0</b>              |
|   | <u>\$ 141.1</u>  | <u>\$ (2.1)</u>  | <u>\$ 10.5</u>    | <u>\$ 34.5</u>  | <u>\$ <b>28.7</b></u>  | <u>\$ <b>71.6</b></u>    |
| <b>Operating earnings (loss)</b>            |                  |                  |                   |                 |                        |                          |
| Specialty printing papers                   | \$ 41.1          | \$ (20.3)        | \$ (120.1)        | \$ (1.8)        | \$ <b>(5.3)</b>        | \$ <b>(147.5)</b>        |
| Newsprint                                   | (70.3)           | (26.3)           | (211.8)           | (1.1)           | <b>(4.5)</b>           | <b>(243.7)</b>           |
| Pulp  | (11.6)           | (2.3)            | 8.0               | 8.0             | <b>10.0</b>            | <b>23.7</b>              |
|   | <u>\$ (40.8)</u> | <u>\$ (48.9)</u> | <u>\$ (323.9)</u> | <u>\$ 5.1</u>   | <u>\$ <b>0.2</b></u>   | <u>\$ <b>(367.5)</b></u> |



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

| (\$millions, except per share amounts)   | 2009             | 2010             |                  |                  |                | 2010<br>Total    |
|--|------------------|------------------|------------------|------------------|----------------|------------------|
|  | Total            | Q1               | Q2               | Q3               | Q4             |                  |
| <b>Net earnings (loss) attributable to the Company as reported</b>   | \$ (4.4)         | \$ (44.1)        | \$ (368.4)       | \$ 6.0           | \$ 9.6         | \$ (396.9)       |
| Specific items, after taxes:   |                  |                  |                  |                  |                |                  |
| Foreign exchange loss (gain) on long-term debt   | (64.0)           | (11.7)           | 21.3             | (16.3)           | (17.5)         | (24.2)           |
| Impairment and loss on disposal  | 13.1             | –                | 292.3            | 0.9              | (1.8)          | 291.4            |
| Restructuring costs  | 12.5             | 10.1             | 10.9             | 0.3              | –              | 21.3             |
| Gain on cancellation of long-term debt   | (26.1)           | –                | –                | (0.5)            | –              | (0.5)            |
| Notes exchange costs   | 1.5              | 5.9              | –                | –                | –              | 5.9              |
| Income tax adjustments   | 8.6              | 2.2              | –                | –                | 13.8           | 16.0             |
| <b>Net earnings (loss) attributable to the Company before specific items</b>                                 | <b>\$ (58.8)</b> | <b>\$ (37.6)</b> | <b>\$ (43.9)</b> | <b>\$ (9.6)</b>  | <b>\$ 4.1</b>  | <b>\$ (87.0)</b> |
| <b>Net earnings (loss) per share attributable to the Company's common shareholders before specific items</b> | <b>\$ (0.15)</b> | <b>\$ (0.10)</b> | <b>\$ (0.11)</b> | <b>\$ (0.03)</b> | <b>\$ 0.01</b> | <b>\$ (0.23)</b> |

# Capitalization

(\$millions, except where otherwise stated)

|  | 2009<br>Dec 31  | 2010<br>Dec 31  |
|--|-----------------|-----------------|
| <b>Total debt</b>  |                 |                 |
| 8.625% senior notes, due June 2011 <sup>(1)</sup>  | \$ 372          | \$ 26           |
| 7.375% senior notes, due March 2014 <sup>(2)</sup>   | 265             | 252             |
| 11.0% senior secured notes, due December 2016 <sup>(3)</sup>   | –               | 279             |
| 11.0% Class B senior secured notes,<br>due December 2016 <sup>(4)</sup>  | –               | 94              |
| Modification – difference in carrying value of 8.625%<br>and 11.0% senior secured notes on exchange <sup>(5)</sup> | –               | 36              |
| Revolving asset based loan   | 15              | –               |
| Capital lease obligation   | 11              | 10              |
| Other non-recourse (PREI)  | 113             | 114             |
| <b>Total</b>   | <b>776</b>      | <b>811</b>      |
| <b>Shareholders' equity attributable to the Company</b>  | <b>814</b>      | <b>423</b>      |
| <b>Total capitalization attributable to the Company</b>  | <b>\$ 1,590</b> | <b>\$ 1,234</b> |
| <b>Cash</b>  | <b>\$ 83</b>    | <b>\$ 95</b>    |
| <b>Net debt ratio <sup>(6)</sup></b>   | <b>46%</b>      | <b>63%</b>      |

<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>  | EBITDA |
|--|--------|
| <b>Impact of US\$10/t change in price of <sup>(1), (2)</sup></b> |        |
| Specialty printing papers  | \$ 9   |
| Newsprint  | 5      |
| Pulp   | 3      |
|  | \$ 17  |
| <b>Impact of \$0.01 change in US\$ <sup>(3)</sup></b>            | 7      |
| <b>Impact of 5% change in price of: <sup>(1), (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)   | 9      |
| ONP (ST)   | 2      |

(1) Based on a foreign exchange rate of US\$0.99

(2) Based on annualized sales of Q4 2010

(3) Based on Q4 2010 annualized net cash flows and a foreign exchange movement to US\$1.00 from US\$0.99 and excluding our hedging program and the impact of the translation of U.S. dollar denominated debt

(4) Based on annualized Q4 2010 consumption levels