Hilco Appraisal Services, LLC

Pulp Industry Perspective

FOURTH QUARTER 2011

PRIMARY RECOVERY FACTORS

>> Pulp prices have declined from the peak in the second quarter of 2011; further declines are expected in the first quarter of 2012.

>> Most of the major capacity increases throughout the world are not expected to begin production until late 2012 and into 2013.

RECENT APPRAISAL EXPERIENCE

Tembec Inc.

Neucel Specialty Cellulose

Cosmo Specialty Fibers Inc.

Resolute Forest Products Inc.

Fibrek Inc.

Catalyst Paper Corp.

Terrace Bay Pulp Inc.

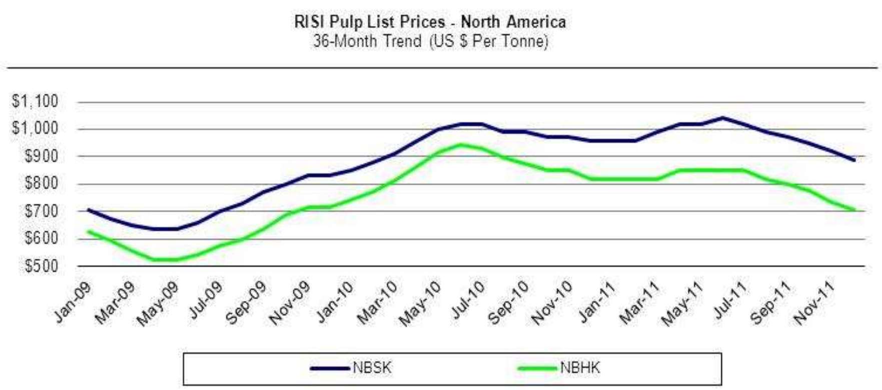
Price Declines Continue

By Jesse Marzouk

Pulp prices continued their decline in the fourth quarter of 2011. NBSK list prices in the U.S. decreased $80 to $890 per tonne in December 2011, bringing the recent decline to $150 per tonne during the second half of 2011. Prices for NBHK in the U.S. also decreased in the fourth quarter, with list prices declining $95 to $705 per tonne.

The pulp market appears to be out of balance from a supply and demand perspective, as demand for printing and writing (P&W) paper in the developed economies of North America and Western Europe continues to decline. Additionally, the demand for P&W paper in emerging markets has been softer than expected, removing that support from under the pulp market. Worldwide pulp inventories remained at an elevated 41 days' supply for hardwood and 34 days' supply for softwood in November. Balance in the markets is typically considered to be approximately 38 days' supply for hardwood and 30 days' supply for softwood.

Pulp prices likely will continue to soften in the first quarter of 2012 as supplies still remain slightly elevated and the average discount between list prices and spot prices has reached 25%. Normal discounts between list and spot prices are typically in the range of 15% to 20%. Producers are hopeful that a bottom is near as selling prices are beginning to reach the level of cash cost for the highest cost producers. Additionally, demand for pulp in China, a large driver of market prices, has begun to stabilize. As long as the worldwide economy does not "fall off a cliff", a short term bottom in pulp prices will probably be reached in the first or second quarter of 2012.



Jesse Marzouk is a vice president and forestry products specialist. He has appraised numerous U.S. and Canadian pulp, paper, and lumber-related companies involved in manufacturing and distribution. Jesse received his MBA in finance from Kellogg School of Management at Northwestern University and has a degree in finance and accounting from Indiana University.

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