



Meeting global demand
for cellulose production.

2184 - 1055 Dunsmuir, Bentall 4 Vancouver, BC Canada V7X 1C4
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Media Release

May 5, 2006

International Investors Start Up Specialty Cellulose Plant In Port Alice, B.C.

(Port Alice, B.C. – May 5, 2006) – The Neucel Specialty Cellulose plant in Port Alice, British Columbia officially opens today, with international investors putting their money behind the strong market demand for dissolving sulphite pulp. The mill, in the remote Canadian resource community on northern Vancouver Island, has been the economic lifeline for the community of 700 people for nearly a century.

The plant had been purchased in early December 2005 by an investment consortium of Wellspring Capital Management of New York and Charlestown Investments, based in Switzerland. An extensive capital program of equipment maintenance and upgrading has been underway to improve efficiency, reliability and move the mill's production into high-purity cellulose.

"As promised, over the past five months, we have invested approximately \$35 million in capital and equipment upgrades to become competitive in both production costs and product offerings," said CEO, Richard Bassett. "A further US\$10-15 million is due to be spent between May and August of this year with an additional US\$70-80 million due to be earmarked for investment by the end of 2008."

Over the past month, Neucel has hired almost 300 employees and a recent sales trip to Europe, the US and Japan was very positive. "The sales opportunities are there," said Bassett, "especially for the high-purity cellulose such as acetates and ethers. There was a great deal of interest among buyers to see our products and begin testing them for purchase."

Investors saw the potential opportunities of a specialty cellulose plant Bassett said, but required a number of changes to make the investment work. "We worked out a fair taxation schedule with the Village of Port Alice," he said, "as well as a progressive labour agreement that gives us the flexibility to improve productivity, sustain the wage rates to attract skilled employees, and allow a bonus program when we make profits. So it really took a lot of cooperation for this to happen."

Most importantly, he added, the BC government was willing to acknowledge their responsibility for historical environmental liabilities. "The BC government negotiated a deal with Neucel to protect investors from past environmental liability for which they had no responsibility. In making that decision, government recognized that a tax-paying plant with 300 employees anchoring the economics of North Island was preferable to a bankrupt, closed mill needing expensive environmental remediation work."

Bassett added that while Economic Development Minister Colin Hanson was responsible for steering the environment liability deal, Minister of Forests, Rich Coleman was a critical advocate for the plant within government. "Simply put," said Bassett, "Minister Coleman supported this deal at its most critical time."

The Quatsino First Nations were also supporters, he added. "They stored equipment, and supported the transfers of various foreshore rights and water licenses to us. We needed that support and we have also gained a number of employees from the Band who won jobs during our interview process."

Today's noon-hour ceremony and barbeque will officially launch the plant opening. Attendees include British Columbia Forests Minister, Rich Coleman, North Island area families including the Village of Port Alice, Quatsino First Nations representatives, Neucel executives, and mill employees

Neucel Specialty Cellulose will begin selling pulp immediately and will move into the high-purity markets to ensure financial stability as its products are qualified by buyers.

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Backgrounder

About Neucel

Neucel Specialty Cellulose is owned by [Wellspring Capital Partners](#), and Charlestown Investments.

Wellspring is a New York based private equity firm which has consistently ranked among the top-performing private equity funds specializing in the middle market. Wellspring currently manages more than \$2 billion in equity capital on behalf of some of the largest and most respected institutional investors in the United States, Canada, and Europe. Long term limited partner investors in Wellspring include pension and retirement plans, representing the interests of over 2,000,000 members in North America (including more than 250,000 Canadian public workers).

Charlestown Investments is an investment holding company registered in Zug, Switzerland and controlled by a group of private European investors. Charlestown has other investments in software, real estate, biotechnology and business services providers.

A New Operating Approach

Neucel is investing to achieve cost savings in the use of energy and chemicals, better plant operating efficiencies, and to provide higher volumes of high-end, high-purity cellulose for companies that produce pharmaceuticals, food thickeners, fabrics, film and LCD screens and eyeglass lenses. The cellulose for these products commands a much higher price than commodity pulp.

Neucel will stress quality and reliability. Past owners left customers with two complete shutdowns in the past few years. The investment schedule and progress to date will ensure a reliable, high quality supply of product with minimal maintenance or upgrade shutdowns. Neucel's management team has set quality targets in every aspect of operations from supply sourcing and product development, through all phases of the production process, to finishing and packaging of specialty cellulose for customers. In addition, the plant will re-acquire ISO 9001 registration this year.

Neucel's operating approach may be a model for the Coast Forest Industry. A progressive labour agreement was negotiated which provides for, primarily, merit-based employment and promotion along with a profit-sharing bonus plan. As well, discussions with Port Alice have resulted in a fair municipal tax situation based on mill economics and value-for-taxes. Most importantly, Neucel has an investor group committed to a long term capital plan of \$100 million.

The Marketplace for our Products

Neucel has targeted a marketplace with strong and increasing demand. High-purity cellulose is a vital raw material for a vast range of downstream markets and end-uses world-wide and most competitive products to Dissolving Pulp are in non-renewable resources. BC Hemlock will be the primary feed stock – generally regarded as the best fibre in the world for making specialty cellulose.

The industry has entered a new and sustained growth phase. The forecast is for steady growth of 2.7% per year to 2015 and beyond:

- The Acetate market is expanding, particularly in Asia;
- Cellulose ethers are growing at 2.5 – 3.0%/yr driven by the construction industry in products such as cement and paint;
- MicroCrystalline Cellulose for pharmaceuticals is growing at 3-5%/yr;
- Nitrocellulose in products such as printing inks and nail polish is growing at 1-2%/yr.;
- Viscose has stabilized and will increase as oil prices remain high.

Currently, suppliers are finding it difficult to meet world demand. Neucel is well positioned to help customers meet their needs, particularly in end-use applications with robust demand for high-purity cellulose - including oilfield fluids, detergents, construction materials, textile and paper chemicals, processed foods, personal care products, eyewear and pharmaceuticals.

A Commitment to Environmental Standards

In British Columbia's forest sector, environmental stewardship and sustainability are a business necessity.

The plant uses an environmentally-friendly bleaching sequence which eliminates the use of elemental chlorine and the Secondary Treatment Plant has reduced AOX emissions to half the regulatory limit.

Strategic investments in new technology, such as the Impco Wash Press, will reduce the plant's consumption of energy and chemicals.

Neucel will purchase almost one million C3 of fibre annually and takes seriously chain of custody considerations of purchased fibre. The company is developing procurement programs to ensure that fibre is legally harvested from sustainably managed forests and supports forest certification programs such as PEFC, CSA and ISO certifications.



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Questions and Answers

1. Describe specific projects undertaken to improve plant efficiencies and raise product quality

Recovery Boiler upgrades. Installed new superheater tubes, soot blowers and wall blowers to improve the efficiency of the recovery boiler and reduce the overall down time of the boiler. The energy saving and extended running time of the plant will result in a saving of \$1.5 million/year

Wash Press. The project is to install an IMPCO Wash Press in the first stage of the bleach plant. The wash press will dewater the stock before steam and chemicals are added. This will result in both energy and chemical savings. The wash press will also allow for the production of a new specialty cellulose grades that cannot be produced by the existing bleach plant. Energy and chemical saving will be approximately \$1.6 million/year. Higher valued products will increase profitability by approximately \$25 million/year.

Spent Sulfite Heat Exchangers. Installation of two heat exchangers to recover heat from the cooking process and use of the heat to displace steam used in other parts of the mill will reduce the energy costs by \$2 million/year.

Automate the Finishing Room. Installation of new roll and bale wrapping equipment to automate the product handling department will reduce the labor costs by \$1.2 million/year.

2. Who are targeted as buyers?

Neucel is targeting buyers in the following markets:

Acetate: Filters and LCD films

Ethers: Pharmaceuticals, food additives, adhesives

Nitrating: Lacquers, car paints

Viscose: Textiles, sponges, packaging films

Main market areas for Neucel will be USA, Europe, Japan and China.

3. *Who is supplying the plant with fibre? Will the new stumpage rates affect your costs or supply?*

Neucel anticipates purchasing most of their required pulp logs from the North Vancouver Island area. Other purchases will be made from mid and north coast suppliers, as well BC Timber Sales.

Neucel anticipates that the announced stumpage rates for pulp logs of 25 cents C3 will improve the economics of logging and delivering pulp logs. What that means in terms of pulp log volume available for purchase, and for how long that volume is available remains to be seen.

4. *Who are your competitors? Why have a number of other Specialty Cellulose plants closed?*

Neucel competitors include Rayonier, Tembec, Buckeye, Borregaard, Weyerhaeuser, and Sappi.

Closures in the specialty cellulose producers market appear due to the prohibitive cost of environmental upgrading, increasing energy costs, and/or shortages of fibre.

5. *What are the investors' future plans regarding the ownership of the mill?*

The investors have accepted a business plan that identifies \$100 million in capital investments over the next few years and anticipates business variables 15 years out. They believe that the plant represents a very good ongoing investment provided that energy costs are reduced, continued operating efficiencies are found, and market characteristics continue to be positive.



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