



News Release

TICKER SYMBOL
UFS (NYSE, TSX)

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DOMTAR AND FPINNOVATIONS JOIN FORCES TO DEVELOP INNOVATIVE FIBER-BASED NANOTECHNOLOGIES AT NEW DEMONSTRATION PLANT

Montreal, July 16, 2010 – Domtar Corporation (NYSE/TSX: UFS) and FPInnovations today announced that they have formed a new joint venture company to build the world’s first one metric ton per day commercial-scale nanocrystalline cellulose demonstration plant at the Domtar Windsor, Quebec pulp and paper mill site. Construction will begin in the coming weeks and will take approximately 20 months to be completed.

“As the leader in our industry, we are very excited to explore new frontiers by bringing together our operational expertise and the technical knowledge of FPInnovations for the efficient manufacture of this innovative and renewable product,” said John D. Williams, President and Chief Executive Officer of Domtar Corporation. “The remarkable properties of nanocrystalline cellulose and wide range of potential applications speak volumes about the commercial potential of new fiber-based products that go beyond traditional pulp and paper applications.”

“This is an important milestone cumulating over 15 years of R&D investments towards the future development of fiber-based products for the industrial world. During this time FPInnovations developed an extensive intellectual property portfolio around the manufacturing and application of nanocrystalline cellulose,” said Pierre Lapointe, President and Chief Executive Officer of FPInnovations. “I am confident that this partnership and the strong support of both governments will lead to exciting and successful new commercial applications.”

Nanocrystalline cellulose is a renewable, recyclable and abundant nanomaterial made of cellulose fibers from the wood pulp manufacturing process. Potential applications include optically-reflective films, high-durability varnishes, and innovative bioplastics. The properties of this material will provide new opportunities in a wide range of applications for a variety of sectors and markets such as the aerospace, automotive, chemical, textile and forestry industries. There are promising applications

for the aerospace industry that will complement Quebec's innovative aerospace "green" aircraft program.

The cost of construction of the demonstration plant is approximately CDN\$32.4 million and operating costs are estimated at CDN\$8.4 million, for a total investment of CDN\$40.8 million. CDN\$12 million of Domtar's total contribution has been submitted for funding approval under the Government of Canada's Pulp and Paper Green Transformation Program. Natural Resources Canada and Quebec's Natural Resources and Wildlife Ministry are contributing CDN\$10.2 million each to FPIInnovations' portion of the funding of this project. All funding is still subject to approval.

During the construction phase, the project will provide approximately 50 jobs as well as engineering services from the Quebec and the Canadian engineering firms, Teknika and Noram, respectively. Approximately 10 permanent positions will be needed to operate the demonstration plant. In addition, numerous researchers and scientific personnel have been and will continue working to deliver on the potential new nanocrystalline cellulose applications and products.

Following the construction phase, under the joint venture agreement, Domtar and FPIInnovations will explore the commercial viability of the production of nanocrystalline cellulose on a larger commercial scale.

About Domtar

Domtar Corporation (NYSE/TSX:UFS) is the largest integrated manufacturer and marketer of uncoated freesheet paper in North America and the second largest in the world based on production capacity, and is also a manufacturer of papergrade, fluff and specialty pulp. The Company designs, manufactures, markets and distributes a wide range of business, commercial printing and publishing as well as converting and specialty papers including recognized brands such as Cougar®, Lynx® Opaque Ultra, Husky® Opaque Offset, First Choice® and Domtar EarthChoice® Office Paper, part of a family of environmentally and socially responsible papers. Domtar owns and operates Domtar Distribution Group, an extensive network of strategically located paper distribution facilities. The Company employs over 9,000 people. To learn more, visit www.domtar.com.

About FPIInnovations

FPIInnovations is Canada's leading not-for-profit forest products research institute which performs research, technical services and technology transfer activities relating to wood harvesting, wood products, pulp and paper, nanotechnology and bio-energy and chemical production. FPIInnovations' staff numbers more than 600. Its research laboratories are located in Québec City, Montréal and Vancouver, and it has technology transfer offices across Canada. For more information about FPIInnovations, visit: www.fpinnovations.ca

Forward-Looking Statements

All statements in this press release that are not based on historical fact are "forward-looking statements." While management has based any forward-looking statements contained herein on its current expectations, the information on which such expectations were based may change. These forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of risks, uncertainties, and other factors, many of which are outside of our control that could cause actual results to materially differ from such statements. Such risks, uncertainties, and other factors include, but are not necessarily limited to, those set forth under the captions "Forward-Looking Statements" and "Risk Factors" of the latest Form 10-K filed with the SEC as periodically updated by subsequently filed Form 10-Q's. Unless specifically required by law, we assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances.

