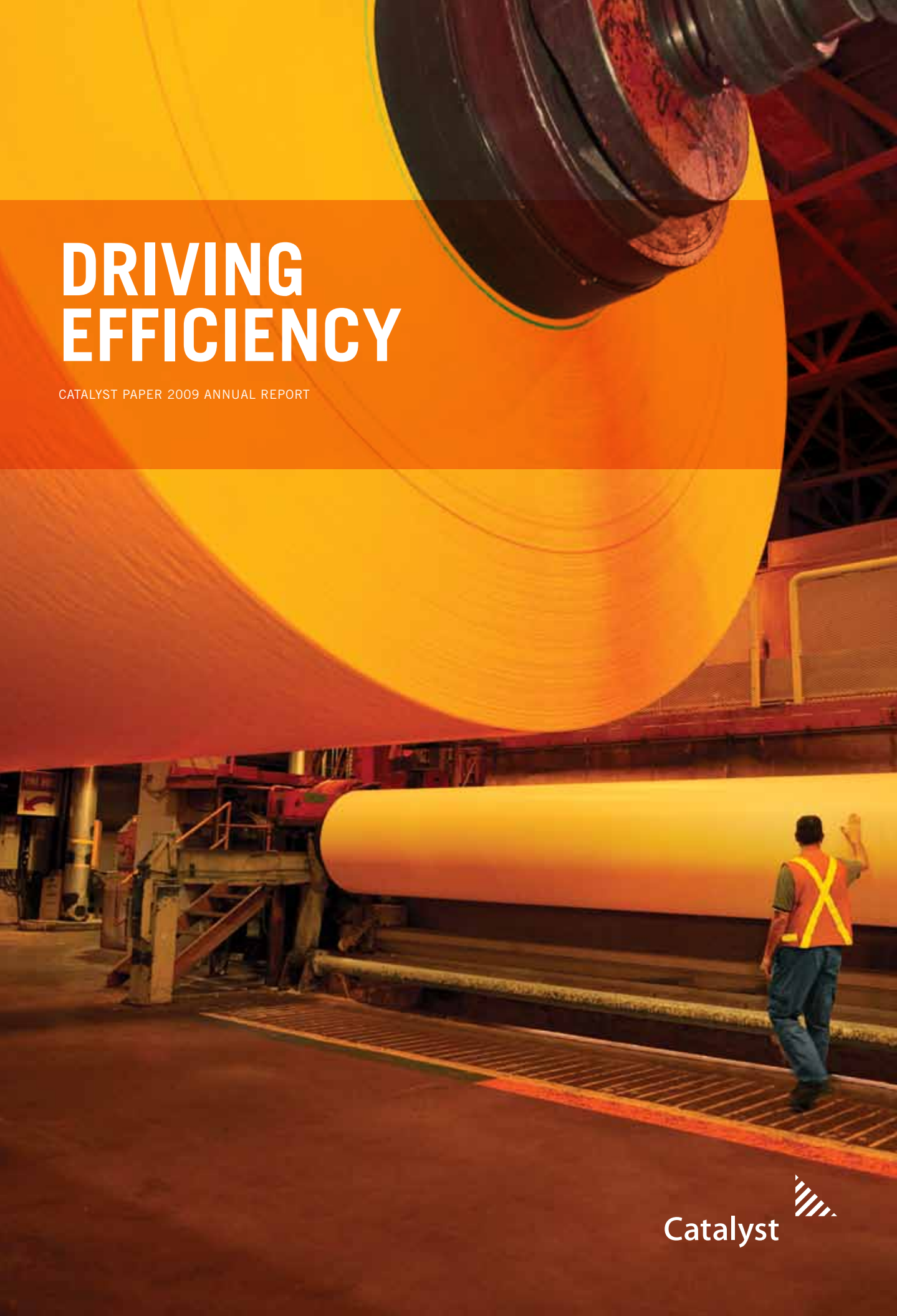
DRIVING EFFICIENCY

CATALYST PAPER 2009 ANNUAL REPORT



Catalyst

COMPANY PROFILE

Catalyst Paper manufactures diverse specialty printing papers, newsprint and pulp, and is headquartered in Richmond, British Columbia, Canada. Its customers include retailers, publishers, commercial printers and paper manufacturers in North America, Latin America, the Pacific Rim and Europe. With six mills strategically situated in British Columbia and Arizona, Catalyst has a combined annual capacity of 2.5 million tonnes.

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FOCUS ON EFFICIENCY

A global recession and accelerating structural change in key market segments pushed the bars even higher for cost control and adaptation during 2009.

Catalyst responded with a sustained focus on efficiency – encompassing all resources from raw materials to working capital to employee time. Improved competitiveness across all major corporate functions was the outcome.

FINANCE

Proactive steps were taken to conserve cash, reduce overall debt levels and interest costs, and extend maturity dates. This included a debt buy-back at a discount to par, a review of re-financing alternatives relating to senior unsecured notes maturing in 2011 and 2014, a successful refinancing of Catalyst's joint venture Powell River Energy Inc.'s debt, and the Q4 launch of a private exchange offer for notes maturing in 2011. Such measures helped manage the liquidity impacts of large price and revenue declines.

SALES

Sales and marketing focused on efficiency in logistics, pressroom performance, technical and service support in 2009. Introduction of the Programme for the Endorsement of Forest Certification chain-of-custody system at Catalyst's Canadian paper mills enabled on-product labeling and helped gain entry to new segments and strengthened the company's position in known markets. Forest Stewardship Council certification enhanced the well-recognized recycled paper pedigree at Snowflake and proved useful in securing specialty grade sales to major retailers.

OPERATIONS

Improved grade flexibility and new product development were priorities at all operating paper mills. This included expanded Electracote Brite production at Port Alberni and introduction of book-grade production at other mills. Capital investments at Snowflake enabled its transition away from a single recycled newsprint commodity grade, and increased the mill's capacity to produce specialty papers for freight-logical customers. A determined focus on fixed-cost reductions continued during a year when 42 per cent of total capacity was curtailed.

SUPPLY CHAIN

The cost and sustainability merits of efficient distribution secured Catalyst's registration during 2009 as a partner in the US Environmental Protection Agency's SmartWay program. This reflects the company's extensive use of carriers who are working to improve fuel efficiency and reduce greenhouse gas emissions. Catalyst also gained efficiency in its use of available carrier capacity across trucking, rail and marine-container modes.

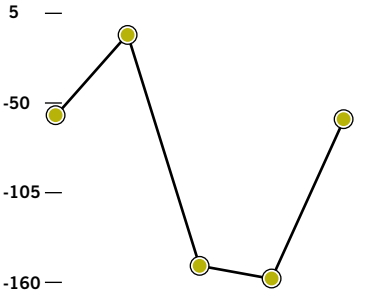
CORPORATE RELATIONS AND SOCIAL RESPONSIBILITY

Catalyst pushed for a response from the Canadian federal government to the US black liquor tax credit. In concert with industry-wide lobbying, this resulted in the Green Transformation Program, through which Catalyst qualified for $18 million in credits. The company also advocated extensively for a consumption-based approach to municipal taxation of major industry, and took legal action in an effort to ensure this long-standing issue is addressed.

HUMAN RESOURCES

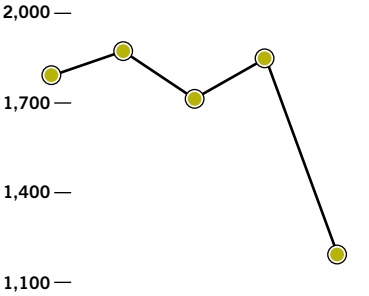
Company-wide efforts improved the alignment between the size and structure of Catalyst's workforce, and its business requirements and current production levels. An organizational re-design eliminated layers and simplified reporting lines between the CEO and mill floor, and established more consistent and clear accountabilities for each role in the company. A collaborative drive towards more flexible and cost-competitive labour arrangements continued – building on plans and targets endorsed by various union locals – and helped ensure a smooth Q4 re-start of one pulp line at Crofton pulp mill.

Operating Earnings (Loss)
(In millions of dollars)



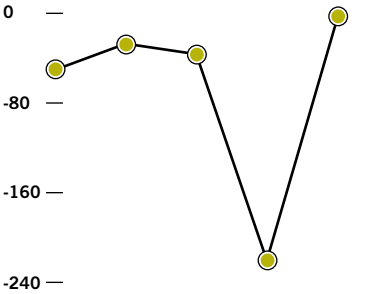
2005	2006	2007	2008	**2009**
(57.8)	(8.0)	(149.4)	(157.4)	**(60.5)**

Sales
(In millions of dollars)



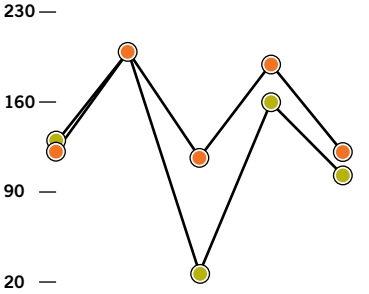
2005	2006	2007	2008	**2009**
1,791.5	1,873.2	1,714.6	1,849.4	**1,201.7**

Net Earnings (Loss) Attributable to the Company
(In millions of dollars)



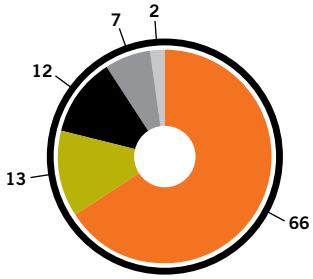
2005	2006	2007	2008	**2009**
(50.4)	(27.2)	(36.5)	(219.8)	**(4.4)**

EBITDA and EBITDA Before Specific Items
(In millions of dollars)



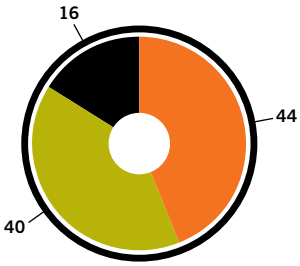
	2005	2006	2007	2008	**2009**
EBITDA	122.5	199.1	27.0	159.4	**103.5**
EBITDA BEFORE SPECIFIC ITEMS	129.2	199.1	116.7	189.5	**121.4**

Total Geographic Sales Distribution
(% tonnes)



- **UNITED STATES**
- **CANADA**
- **ASIA AND AUSTRALASIA**
- **LATIN AMERICA**
- **EUROPE AND OTHER**

Production Capacity
(% tonnes)



- **SPECIALITY PRINTING PAPERS**
- **NEWSPRINT**
- **PULP**

OUR HIGHLIGHTS

Three-year trends on key performance metrics are noted below. Financial results are elaborated on in this report, while readers with an interest in more details regarding Catalyst's social and environmental performance will find the Company's annual sustainability report at www.catalystpaper.com.

FINANCIALS

(In millions of dollars, except where otherwise stated)	2009	2008	2007
Sales	**$ 1,201.7**	$ 1,849.4	$ 1,714.6
EBITDA [1]	**103.5**	159.4	27.0
EBITDA before specific items [1]	**121.4**	189.5	116.7
Operating earnings (loss)	**(60.5)**	(157.4)	(149.4)
Net earnings (loss) attributable to the Company	**(4.4)**	(219.8)	(36.5)
Net earnings (loss) attributable to the Company before specific items [1]	**(58.8)**	(25.6)	(89.3)
Cash flows provided (used) by operations	**101.4**	78.1	(2.7)
Total debt [2]	**775.6**	969.9	800.2
Total assets	**2,090.8**	2,390.3	2,434.5
Capital expenditures	**11.5**	41.9	85.8
Average spot foreign exchange rate US$/C$ [3]	**0.876**	0.938	0.930
Period-end spot foreign exchange rate US$/C$ [4]	**0.956**	0.817	1.012

OPERATIONS

(In millions of dollars, except where otherwise stated)	2009	2008	2007
Production [5]			
Specialty printing papers	**891**	1,060	1,055
Newsprint	**497**	597	473
Pulp	**88**	503	602
Safety			
Medical incident rate [6]	**4.23**	4.49	3.70
Lost-time injury frequency [7]	**2.06**	2.23	2.06
Number of employees [8]	**1,851**	2,711	3,023
Greenhouse gas emissions [9, 10]	**909**	1,050	432

1 EBITDA, EBITDA before specific items, and net earnings (loss) attributable to the Company before specific items are non-GAAP measures. Refer to Management's discussion and analysis, section 10, "Non-GAAP measures" for further details.

2 Total debt comprises long-term debt, including current portion.

3 Average spot foreign exchange rate is the average Bank of Canada noon spot rate over the reporting period.

4 Period-end spot foreign exchange rate is the Bank of Canada noon spot rate.

5 In thousands of tonnes.

6 Number of medical incidents per 200,000 hours worked.

7 Number of lost-time injuries per 200,000 hours worked. 2008 figure updated to reflect post year-end adjustments based on injury progression/duration.

8 Figures represent active employees and exclude vacancies.

9 Thousands of tonnes CO_2e/year.

10 2008 figure updated to reflect a calculation adjustment.

PRESIDENT'S MESSAGE

Catalyst was confronted with a variety of challenges during 2009 – some that affected the economy as a whole and others specific to our industry; some cyclical and others likely to be permanent. Their combined impact was unprecedented.

Demand declined and prices were down across our product lines. In response, we cut production by nearly half, restricted capital and maintenance spending and intensified our drive for efficiency on all fronts with the objective of conserving cash. We posted a net loss attributable to the company of $4.4 million ($0.01 per common share) on sales of $1,201.7 million in 2009, compared to a net loss attributable to the company of $219.8 million ($0.65 per common share) on sales of $1,849.4 million in 2008.

Results in 2009 were boosted by after-tax gains of $26.1 million on the buy back of US dollar long-term debt. Before this and other specific items, we posted a net loss for 2009 of $58.8 million in 2009, compared to a net loss of $25.6 million in 2008 which included an after-tax $111.0 million impairment charge primarily relating to the permanent closure of pulp and white top linerboard operations at the Elk Falls mill.

Earnings before interest, taxes, depreciation and amortization, impairment, and other non-operating income and expenses declined to $103.5 million in 2009 from $159.4 million in 2008.

Cost management, production discipline and lower restructuring costs contributed to reduce our operating loss to $60.5 million in 2009, from $157.4 million in 2008. Our specialties printing segment, which represents the majority of our capacity, continued to post positive operating earnings, generating $25.5 million in 2009. This was comparable to $27.0 million in 2008.

THE BUSINESS CLIMATE

The global economic downturn that began in late 2008 continued to reduce demand and pricing throughout 2009, in particular from reduced retail spending and print advertising. Fewer and smaller magazines, retail inserts, directories and newspapers were produced in 2009, as print advertisers and publishers began to transform their business models in light of recessionary pressures and consumer media trends.

Despite indications of economic stabilization in late 2009 and into early 2010, improvement to-date in paper markets is more a result of seasonal fluctuations and inventory build-up than of actual demand recovery. We expect some of the demand to return with economic recovery, but the ongoing migration to online communication will render part of the decline permanent.

In the specialties paper segment, North American demand was down by 16% in 2009 from the previous year for uncoated mechanical and directory. Coated mechanical demand was down by 20%. North American newsprint demand was down by 23 per cent. Average benchmark prices were well off 2008 levels, with the exception of contract prices for directory.

In the pulp segment, prices were buoyed in the last half of 2009 by strong Chinese demand, but the average Northern Bleached Softwood Kraft benchmark price on the year was still down 21 per cent from 2008.

As the business climate weakened, we implemented significant production curtailments throughout the course of the year, particularly at Elk Falls where all production was curtailed from February onward, and at our Snowflake and Crofton mills. In total, 16 per cent of specialty papers capacity, 48 per cent of newsprint capacity and 70 per cent of market pulp capacity was curtailed during 2009.

PERFORMANCE IMPROVEMENT

Cost management continued to be our key focus, and progress was reflected in lower average delivered cash costs across the three product segments. In particular, fixed production costs, which had already been cut, were further reduced, improving Catalyst's operational flexibility and margins during periods when market-driven curtailments are necessary.

We continued to implement the labour cost-reduction agreements reached with a number of union locals, entailing further workforce reductions and a transition to more flexible working arrangements. These agreements support our efforts to achieve an $80 per tonne labour-cost benchmark, and provide added flexibility to respond appropriately as competitive realities develop.

Restructuring during 2009 also included a salaried workforce reduction and salary freeze. The transition to lower-cost pension and benefit arrangements will deliver cost savings in 2010.

While capital spending in 2009 was limited, primarily, to basic maintenance requirements, Catalyst completed a project to add thermo-mechanical pulp capacity at Port Alberni, and started capital improvements at Snowflake to produce high bright and directory to take advantage of the lower transportation cost to serve the mill's natural market. As well, we installed better chain-of-custody certification systems, optimized grades and quality to improve the competitiveness of our offer to the market.

We also initiated legal actions in an effort to resolve the long-standing issue of excessive municipal property taxes in four of our operating communities in British Columbia. Our initial petitions were dismissed and while we have appealed the decision, we are also pursuing an equitable outcome through ongoing and focused government relations and ongoing discussion with some municipalities.

OUTLOOK FOR 2010

The modest economic recovery underway is expected to take hold more slowly within the paper industry. We do not foresee a significant rebound in print advertising during 2010. Pricing is expected to remain under pressure, particularly for directory, and that newsprint markets are expected to remain in an over-supplied situation for some time yet. This may require production curtailments beyond those announced in January 2010 of one paper machine at Crofton and our Paper Recycling Division which supplied it with recycled fibre.

I have announced that I will be leaving Catalyst, effective the end of May 2010 for personal reasons. A key focus, in recent weeks, was to conclude the private exchange offer on Catalyst's senior notes maturing in 2011 and this exchange offer has now been completed with the issue of new notes maturing in 2016. This is a prudent and proactive step that extends debt maturity given current industry conditions and continued credit constraints.

Looking ahead, the challenge for Catalyst remains one of arriving at a cost structure, product suite, and operational platform that will be competitive within the smaller and more agile paper industry now taking shape. Results in 2009 – while far from what's required over the long-term – show progress that would not have been possible even a few years ago. This reinforces the merit of our focus on cost competitiveness enabling us to persevere in the short-term while developing the lean manufacturing discipline and supply chain efficiency required to be a leading player in a smaller market.

Richard Garneau
President and Chief Executive Officer
March 11, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of Catalyst Paper Corporation (the "Company") should be read in conjunction with the consolidated financial statements for the years ended December 31, 2009, 2008 and 2007, and the notes thereto.

Throughout this discussion, references are made to EBITDA which represents earnings before interest, taxes, depreciation and amortization, impairment, and before other non-operating income and expenses, and to EBITDA before specific items, average delivered cash costs per tonne before specific items, net earnings (loss) attributable to the Company before specific items, net earnings (loss) per share attributable to the Company's common shareholders and free cash flow. Management believes these measures are useful in evaluating the performance of the Company and its business segments. As United States ("U.S.") generally accepted accounting principles ("GAAP") do not define a method of calculating these measures, securities regulations require that non-GAAP measures be clearly defined and qualified, and reconciled with their nearest GAAP measure. The definition, calculation and reconciliation of these non-GAAP measures are provided in Section 10, "Non-GAAP measures".

In this MD&A, the term "tonne" and the symbol "MT" refer to a metric tonne and the term "ton" and the symbol "ST" refer to a short ton, a measure of weight equal to 0.9072 metric tonnes, and the symbol "Bdt" refers to bone dry tonnes. Use of these symbols is in accordance with industry practice.

In this MD&A, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars. The term "dollars" and the symbols "$" and "CDN$" refer to Canadian dollars and the term "U.S. dollars" and the symbol "US$" refer to United States dollars.

The information in this MD&A is as at March 11, 2010, which is the date of filing in conjunction with the Company's press release announcing its results for the fourth quarter and 12 months ended December 31, 2009. Disclosure contained in this document is current to March 11, 2010, unless otherwise stated.

Cautionary Statement Regarding Forward-looking Statements

This MD&A contains forward-looking statements. Forward-looking statements are statements that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future, including statements relating to overall economic conditions, future cost savings, capital expenditures, demand for the Company's products, product prices and advertising levels, production volumes, future cash flows and liquidity, covenant compliance, severance obligations, the negative impact on EBITDA of a decline in directory volumes and prices in 2010, strength of markets, achievement of synergies, 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 words such as "anticipate", "could", "expect", "seek", "may", "likely", "intend", "will", "believe" and similar expressions or the negative thereof. These forward-looking statements reflect management's current views and are based on certain assumptions including assumptions as to future economic conditions and courses of action as well as other factors management believes 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 the Company 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 general economic conditions in the U.S., Canada and internationally, market conditions and demand for the Company's products, levels of advertising spending and circulation, the outlook for inventories, production and pricing, the Company's ability to successfully obtain cost savings from its cost reduction initiatives, expected cash flows, capital expenditures and completion of capital projects, shifts in industry capacity, fluctuations in foreign exchange and interest rates, fluctuations in availability and cost of raw materials and energy, the implementation of environmental legislation requiring capital for operational changes, the Company's ability to obtain financing and other factors beyond the Company's control. Additional information concerning these and other factors can be found in Section 14 of this MD&A under the heading "Risks and uncertainties". The Company disclaims 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.

1 OVERVIEW AND HIGHLIGHTS

OVERVIEW OF THE BUSINESS

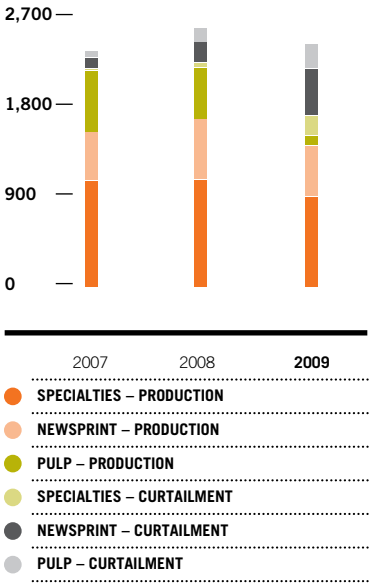
The Company is a leading producer of specialty printing papers and newsprint in North America. The Company also produces market pulp and owns western Canada's largest paper recycling facility. The Company has a combined annual capacity of 2,507,000 tonnes of product at five mills, including its paper recycling facility, located within a 160-kilometre radius of its head office in Richmond, British Columbia ("B.C."), Canada and one mill located in Snowflake, Arizona, United States of America.

The Company is the largest producer of specialty printing papers and newsprint in western North America. The Company's specialty printing papers include lightweight coated paper, uncoated mechanical papers, and directory paper. The Company is the only producer of lightweight coated paper in western North America.

The Company's products are sold by its sales and marketing personnel in North America and through distributors and agents in other geographic markets. These products are shipped by a combination of rail, truck and barge for customers located in North America and by break-bulk and deep-sea container vessels for customers located overseas.

The Company's business comprises three segments: Specialty printing papers, newsprint, and pulp. Production and production curtailment volumes in the three business segments in the years ended December 31 were as follows:

Production and Curtailment by Segment
(in thousands of tonnes)



Specialty Printing Papers

The specialty printing papers segment consists of lightweight coated ("LWC") and uncoated mechanical papers such as soft-calendered ("SC") and machine-finished ("MF") high-brights and super-brights and directory paper. These specialty printing paper grades can be manufactured on all but one of the Company's paper machines [1] at Port Alberni, Crofton, Elk Falls, Powell River and Snowflake. The specialty printing papers business segment has a total production capacity of 1,112,000 tonnes.

The Company's largest business segment is specialty printing papers which generated 68% of 2009 consolidated sales revenue. The Company's specialty printing papers are sold to a diversified customer base consisting of retailers, magazine and catalogue publishers, commercial printers and telephone directory publishers. In 2009, 92% of specialty printing papers sales volume was sold to customers in North America.

Newsprint

Newsprint can be manufactured on seven [1] paper machines at Crofton, Elk Falls, Powell River and Snowflake. The newsprint business segment has a total annual production capacity of 992,000 tonnes.

Newsprint sales generated 26% of 2009 consolidated sales revenue. The newsprint customer base consists primarily of newspaper publishers located in western and central North America, Asia and Latin America. In 2009, 74% of newsprint sales volume was sold to customers in North America.

Pulp

The pulp segment consists of Northern Bleached Softwood Kraft ("NBSK") pulp manufactured on two pulp production lines at Crofton. The pulp business segment has a total annual production capacity of 403,000 tonnes, of which historically, 343,000 tonnes represent market capacity with the remainder being consumed internally. Prior to November 18, 2008, the pulp segment also included 331,000 tonnes of sawdust pulp and white top linerboard capacity at Elk Falls. The Elk Falls sawdust pulp mill and white top linerboard operation were permanently closed on November 18, 2008 due to the unavailability of sawdust fibre.

Pulp sales generated 6% of 2009 consolidated sales revenue. The pulp customer base is located primarily in Asia and Europe and includes producers of tissue, magazine papers, wood-free printing and writing papers and certain specialty printing paper products. In 2009, 69% of pulp sales volume was sold to customers in Asia and 27% of pulp sales volume was sold to customers in Europe. The Crofton pulp mill is located on tidewater and has a deep-sea vessel loading facility to enable direct-from-mill shipments to Asia and Europe.

The Company also owns the largest paper recycling facility in western Canada. Operated in support of the business segments described above, the recycling facility has an annual production capacity of 175,000 air-dried tonnes of de-inked pulp ("DIP"), the majority of which is consumed internally.

1 The Company has 13 paper machines. The number of machines noted above reflects the ability of the Company's machines to switch between newsprint and specialty printing paper grades.

The chart below illustrates the Company's principal paper and pulp products and their applications, as well as the 2010 production capacity for each product.

PRODUCT PROFILE

Segment	Specialty printing papers				Newsprint	Pulp
	Uncoated mechanical					
Category	Soft-calendered	Machine-finished	Lightweight coated	Directory	Newsprint	NBSK pulp
Brand names	Electrasoft Electracal Electraprime	Electrabrite Electrabrite Lite Electrastar	Electracote	Catalyst	Marathon	Crofton Kraft
Basis weight (g/m^2)	45 – 52	45 – 66.5	44.4 – 63.6	28 – 40	43 – 48.8	n/a
Applications	retail inserts, magazines, catalogues, flyers, direct mail, directories	retail inserts, magazines, supplements, flyers, direct mail, PR and corporate communication books/manuals	retail inserts, magazines, catalogues, direct mail	telephone books, catalogues	newspapers, retail inserts, flyers, supplements, directories	tissue, printing and writing papers, specialty paper products, containerboard
Total capacity (tonnes)	586,000 [1, 3]		231,000	295,000 [1]	992,000 [1,3]	403,000 [2]
% of total capacity	23%		9%	12%	40%	16%

1 Capacities expressed in the above table can vary as the Company is able to switch production between products, particularly newsprint, directory and machine-finished uncoated grades.

2 Total pulp capacity at Crofton is 403,000 tonnes, of which 343,000 tonnes are designated as market pulp with the remainder being consumed internally. The Company indefinitely curtailed pulp production at its Crofton mill, effective March 8, 2009. On October 5, 2009 one line of pulp production was restarted, reinstating 222,000 tonnes of production on an annualized basis. The capacity noted in the table above has not been adjusted to reflect the indefinite curtailment.

3 The Company has indefinitely curtailed the Elk Falls No. 1 ("E1"), No. 2 ("E2") and No. 5 ("E5") paper machines, removing the equivalent of 153,000 tonnes of specialty printing papers production and 373,000 tonnes of newsprint production annually, and the Crofton No. 1 ("C1") paper machine, removing 140,000 tonnes of newsprint production annually. The capacity and number of machines noted in the table above have not been adjusted to reflect the indefinite curtailments.

The chart below illustrates the annual 2010 production capacity of the Company's principal paper and pulp products by mill.

CAPACITY BY MILL LOCATION AND PRODUCT LINE [1]

		Specialty printing papers [1]			Newsprint [1]	Pulp
Mill location	Number of paper machines	Uncoated mechanical	Lightweight coated	Directory	Newsprint	NBSK pulp
Crofton, B.C. [2, 3]	3	–	–	183,000	234,000 [3]	403,000 [2]
Elk Falls, B.C. [3]	3	153,000 [3]	–	–	373,000 [3]	–
Port Alberni, B.C.	2	–	231,000	112,000	–	–
Powell River, B.C.	3	368,000	–	–	104,000	–
Snowflake, Arizona	2	65,000	–	–	281,000	–
Total capacity (tonnes)		586,000	231,000	295,000	992,000	403,000

1 Capacities expressed in the above table can vary as the Company is able to switch production between products, particularly newsprint, directory and machine-finished uncoated grades.

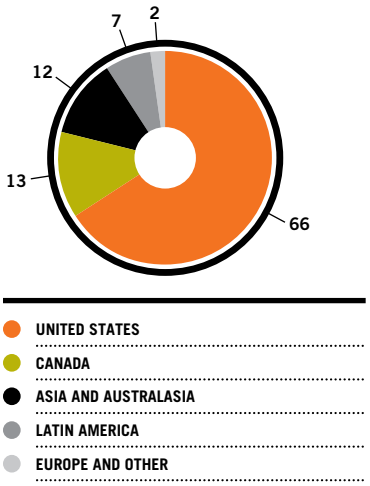
2 Total pulp capacity at Crofton is 403,000 tonnes, of which 343,000 tonnes are designated as market pulp with the remainder being consumed internally. The Company indefinitely curtailed pulp production at its Crofton mill, effective March 8, 2009. On October 5, 2009 one line of pulp production was restarted, reinstating 222,000 tonnes of production on an annualized basis. The capacity noted in the table above has not been adjusted to reflect the indefinite curtailment.

3 The Company has indefinitely curtailed E1, E2 and E5 paper machines, removing the equivalent of 153,000 tonnes of specialty printing papers production and 373,000 tonnes of newsprint production annually, and C1 paper machine, removing 140,000 tonnes of newsprint production annually. The capacity and number of machines noted in the table above have not been adjusted to reflect the indefinite curtailments.

Geographic Sales Distribution

The Company's products are sold on five continents. North America continues to be the Company's principal market, comprising 79% of consolidated sales volume, and is followed in significance by Asia and Australasia, Latin America, and Europe. The consolidated sales volume distribution for 2009 was as follows:

Total Geographic Sales Distribution
(% tonnes)



2009 ANNUAL OVERVIEW

General Overview

Very weak North American advertising spending, compounded by structural changes, primarily in the newsprint and directory segments, caused unprecedented declines in demand and prices for the Company's products during 2009. To address the ongoing deterioration in its markets, the Company curtailed production of 48% of its 2009 newsprint capacity, 16% of its 2009 specialty printing papers capacity, and 70% of its 2009 total market pulp capacity during the year, continued to focus its efforts on improving its cost structure, and actively pursued cash conservation. Despite these measures, the Company's operating and net earnings, cash flow, and liquidity were severely affected by lower prices and sales volumes and by the strengthening of the Canadian dollar in the second half of the year.

Financial Performance

The Company recorded a net loss attributable to the Company of $4.4 million and a net loss attributable to the Company before specific items of $58.8 million in 2009, compared to a net loss attributable to the Company of $219.8 million and a net loss attributable to the Company before specific items of $25.6 million in 2008. The net loss attributable to the Company in 2009 included an after-tax foreign exchange gain of $64.0 million on the translation of U.S. dollar-denominated long-term debt, an after-tax gain on cancellation of long-term debt of $26.1 million, after-tax restructuring costs of $12.5 million, an after-tax impairment change of $13.1 million related to excess machine capacity in 2009, an unfavourable tax adjustment of $8.6 million and after-tax fees of $1.5 million related to the bond exchange. EBITDA in 2009 was $103.5 million compared to $159.4 million in 2008. EBITDA before specific items was $121.4 million, compared to $189.5 million in 2008. Specific items in 2009 included restructuring costs of $17.9 million, compared to restructuring costs of $30.1 million in 2008.

Production Curtailment

As a result of reduced customer demand and declining prices for its products, the Company undertook market-related curtailment at its paper and pulp operations during 2009 in order to match production to customer orders and manage inventories to appropriate levels. The Elk Falls E1 paper machine, which was first curtailed in September 2007, remained curtailed throughout 2009. The Elk Falls E2 and E5 paper machines were curtailed on February 23, 2009 and from February 1, 2009 to May 25, 2009 the Crofton C1 paper machine was curtailed. On an annualized basis, this removed 526,000 tonnes of newsprint and specialty printing papers production at Elk Falls and 140,000 tonnes of newsprint production at Crofton. In the pulp segment, Crofton pulp operations were curtailed indefinitely on March 8, 2009 removing 403,000 tonnes of NBSK pulp on an annualized basis. One of Crofton's two pulp production lines was restarted on October 5, 2009 as pulp prices began to recover in the third quarter ("Q3"), reinstating 222,000 tonnes of capacity. The second pulp line at the Crofton mill, with a capacity of 181,000 tonnes, continued to be curtailed for the remainder of the year. The two machines at Snowflake took periodic production curtailments during the year and the Company's paper recycling facility, which supplies machines with DIP, also took periodic production curtailments in 2009.

The following table summarizes pulp and paper production curtailment in 2009 by quarter.

2009 PRODUCTION CURTAILMENT

(In thousands of tonnes)	Specialty printing papers[1]	Newsprint[2]	Pulp[3]	Total
Q1	36.7	109.4	34.2	180.3
Q2	54.3	119.1	85.8	259.2
Q3	53.5	114.2	85.8	253.5
Q4	40.9	112.7	33.7	187.3
Total	185.4	455.4	239.5	880.3

1 Market-related curtailment comprised 130,400 tonnes of specialty printing papers related to E2 which was curtailed indefinitely on February 23, 2009 and 15,000 tonnes of specialty printing papers related to E1 which was curtailed throughout the year.

2 Market-related curtailment comprised 138,500 tonnes of newsprint related to E1 which was curtailed throughout the year and 187,900 tonnes of newsprint related to E5 which was curtailed indefinitely on February 23, 2009.

3 Market-related curtailment comprised of 239,500 tonnes of market pulp, one line of which was curtailed from March 8, 2009 to October 5, 2009. The second line has been curtailed since March 8, 2009.

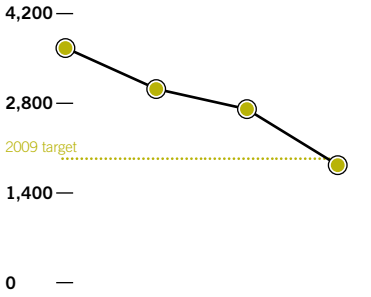
To reflect the excess capacity the Company has had on a number of its newsprint and directory machines, during the fourth quarter ("Q4"), the Company recorded a pre-tax impairment charge of $17.4 million. Refer to "Impairment of long-lived assets" in Section 11 for further details on asset impairment.

Restructuring

The Company announced a number of initiatives during 2009 that were focused on reducing staffing levels in both its hourly and salaried workforce. These initiatives included reductions related to the $80 per tonne agreements reached with its union locals at Powell River and the Pulp, Paper and Woodworkers of Canada ("PPWC") union local at Crofton, staff reductions to achieve a leaner organizational structure, reductions related to production curtailments, and other initiatives aimed at improving overall efficiency and manufacturing costs. The Company expects that these restructuring initiatives will result in annualized cost savings of approximately $17 million. As a result of these initiatives, the number of active employees of the Company at December 31, 2009 declined from the prior year by 860 compared to a targeted reduction of 771 active employees. In 2009, the Company recorded restructuring costs of $13.1 million related to these initiatives and $4.8 million related primarily to the closure of the Elk Falls pulp mill and white top linerboard operation in November 2008.

The number of active employees of the Company at December 31 was as follows:

Number of Active Hourly and Salaried Employees[1,2]



2006	2007	2008	**2009**
3,655	3,023	2,711	**1,851**

1 The number of active employees of the Company includes both hourly and salaried employees who are actively employed, and excludes approximately 572 employees who were on layoff as at December 31, 2009 (2008 – 141; 2007 – 142; 2006 – nil).

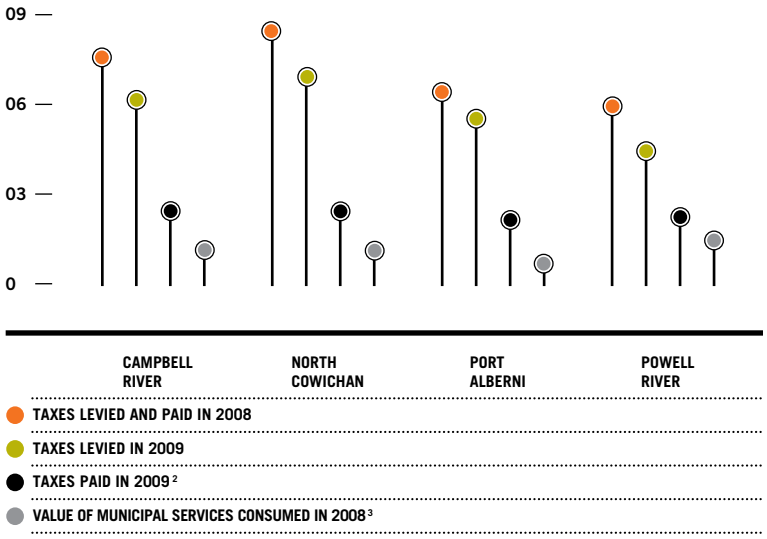
2 The 2009 target represents the number of active employees the Company expected to have as at December 31, 2009 based on the implementation of planned restructuring initiatives and indefinite curtailments announced during the year.

Property Tax Dispute

The Company is committed to taking measures to achieve a more sustainable and reasonable model through which to determine municipal property taxes for industry in the B.C. communities in which it operates. During 2009, the Company petitioned the Supreme Court of B.C. for judicial review of property tax rates in each of the four municipalities in which its B.C. paper mills are located, seeking declarations under Section 262 of the *Local Government Act* that the 2009 tax rates were unreasonable and, therefore, beyond the municipalities' jurisdiction. The Company also provided analyses of 2008 municipal service consumption by tax class for each community in which its mills are located. The property tax levy is approximately six times the cost of services provided by the four municipalities.

The following chart illustrates the Company's property tax situation by mill site:

Property Taxes by Community [1]
(in millions of dollars)



1 Taxes include school district and other provincial taxes.

2 During 2008, the Company informed the municipalities that its 2009 payments would cover school and regional district levies collected by the municipalities on behalf of other governments, as well as amounts to cover municipal property taxes. The latter portions of the payments were based on the cost of services consumed by the Company and grossed up by 30%.

3 Based on detailed studies commissioned by the Company and made available to the public.

The Company's petition with respect to the District of North Cowichan was dismissed on October 16, 2009. The petitions with respect to the other three municipalities were dismissed on December 21, 2009, with the exception of that portion of the Campbell River petition relating to the Regional District property tax, which represents approximately $0.4 million of the total Campbell River property tax bill in dispute. The Company has appealed all four rulings to the B.C. Court of Appeal. The first appeal relating to North Cowichan is expected to be heard on an expedited basis in mid-March 2010. In exchange for the Company's consent to proceed on an expedited basis, the District of North Cowichan has agreed not to initiate any collection proceedings against the Company for the outstanding taxes, penalty and interest until seven days after the appeal judgement is handed down. If the B.C. Court of Appeal dismisses the Company's appeal, the Company will have seven days to decide whether it wishes to seek leave to appeal to the Supreme Court of Canada. If the Company does not seek leave to appeal, the Company has agreed to pay its outstanding 2009 taxes relating to the District of North Cowichan immediately. In January 2010, the City of Port Alberni commenced an action in the Supreme Court of B.C. seeking payment of $3.3 million in unpaid taxes, plus applicable penalties and interest. On March 4, 2010, the court ordered the Company to pay the unpaid taxes, penalties and interest into court, pending the outcome of the appeal of the District of North Cowichan matter. If the appeal is successful, the Port Alberni amounts will be returned to the Company; if the appeal is not successful, the monies will be paid to Port Alberni.

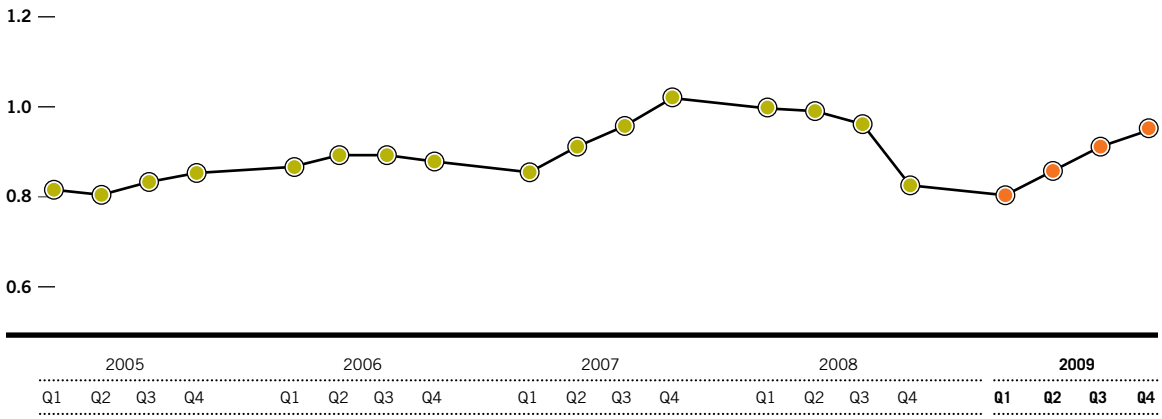
The Company has recorded its property tax expense and liability based on the full amount of property taxes, interest and penalties levied pending the outcome of the appeals. Refer to 2009 strategic initiatives in Section 1, "Overview and highlights", and to Section 14, "Risks and uncertainties" for further details on property taxes.

Canadian Dollar

The majority of the Company's sales are denominated in U.S. dollars. During 2009, the Canadian dollar strengthened steadily against the U.S. dollar; however, the average spot rate declined to US$0.876 in 2009 from US$0.938 in 2008. The favourable movement in the average year-over-year spot rate was mirrored by the favourable impact of the Company's hedge positions, which led to a lower average effective exchange rate in 2009 than in 2008. Overall the US$/CDN$ exchange rate movements had a positive impact of $48.6 million on revenue and $30.0 million on EBITDA in 2009 compared to 2008. In contrast, the year-end spot rate increased to US$0.956 in 2009 from US$0.817 in 2008, resulting in an after-tax foreign exchange gain of $64.0 million on the translation of U.S. dollar-denominated debt in 2009, compared to an after-tax foreign exchange loss of $69.4 million in 2008.

The chart below illustrates the movement of the US$/CDN$ spot rate over the past six years:

US$/CDN$ Average Spot Rate
(Source: Bank of Canada noon spot rate)



Product Demand and Pricing

Market conditions for the Company's products were very challenging in 2009. Prices for the Company's paper and pulp products declined significantly during much of the year as demand for print advertising rapidly deteriorated and producer operating rates remained at historically low levels. Although the downward trend in demand for printing papers eased by Q4 due to seasonal factors and inventory levels, low operating rates and weak demand continued to exert negative pressure on prices.

Year-over-year, North American demand for coated mechanical grades was down 19.8% in 2009 due in part to a 26% decline in magazine ad page counts and an 18% decline in the number of catalogues mailed and a draw-down of inventories. As a result, the average LWC benchmark price dropped 15.8% to US$808 per ton in 2009 from US$960 per ton in 2008.

Uncoated mechanical demand decreased 15.5% in 2009 as circulation and page counts for retail inserts declined. This was a result of reduced advertising as retailers sought to cut costs to offset lower sales and the draw-down in inventories throughout the year. In addition, producers with swing machines shifted some production to uncoated grades, adding supply to already imbalanced markets. As a result, the average 2009 soft-calendered A grade ("SC-A") benchmark price was 7.9% lower than the previous year.

North American directory demand decreased 21.3% in 2009 from the prior year, primarily as a result of lower advertising by small and medium businesses, ongoing pressure to reduce or eliminate white pages, smaller books, lower circulation, and the continued migration from printed directory books to the internet. Annual contract prices for 2009 were marginally higher compared to 2008; however, non-contracted directory prices declined steadily throughout 2009 as a result of low operating rates. The average directory benchmark price for 2009 was 1.1% higher than for 2008.

U.S. newsprint consumption continued to decline in 2009 due to weak advertising, declining circulation and ongoing newsprint conservation measures by publishers. Newsprint shipments from North American producers were further negatively affected by a slight draw-down in inventories and falling export volumes. The consequence of these factors was that newsprint operating rates remained very low throughout 2009. By August 2009, these factors had served to erode benchmark newsprint prices to below average cash costs for most producers. In response, the Company announced newsprint price increases of US$35 per tonne in each of October and November 2009, and an increase of US$50 per tonne in December 2009. However, due to weak demand and low newsprint producer operating rates, the Company was able to implement a total increase of only US$70 per tonne by the end of 2009 and the December 2009 price increase was deferred to January 2010. Overall, despite the price increases in Q4, the average 2009 newsprint benchmark price dropped 20.5% from 2008.

The rapid deterioration in pulp prices seen in late 2008 continued during the first half of 2009 as European and North American demand remained weak. However, strong pulp shipments to China throughout the year offset declines in other markets and resulted in an increase in global chemical pulp shipments of 1.8% in 2009 from 2008. Global shipments of NBSK pulp decreased 7.4%. Consistently strong and historically unprecedented demand from China, coupled with high levels of idled production capacity by the second quarter ("Q2") of 2009 resulted in a recovery in NBSK pulp prices in the second half of the year and the Company announced pulp price increases of US$30 per tonne in each of October and November 2009. The price improvement late in 2009 did not counter the rapid price decreases in early 2009 and, as a result, the average NBSK benchmark price for the full year was 20.6% lower than in 2008. In addition, the U.S. black liquor tax credit available to U.S. competitors throughout 2009 put Canadian pulp producers at a significant disadvantage as well as had a detrimental impact on coated and uncoated groundwood producers.

Financing, Liquidity, and Capital Assets

During the first quarter ("Q1") of 2009, the Company purchased US$45.8 million of its debt, due in June 2011, in the open market for cash consideration of US$21.3 million and recorded a gain before tax of $30.7 million (US$24.5 million) on the cancellation of this debt. The purchase was financed by the monetization of "in-the-money" currency hedges through unwinding US$134.9 million of notional debt-hedge positions for proceeds of $34.7 million.

On July 24, 2009, Powell River Energy Inc. ("PREI"), in which the Company is a 50.001% joint venture partner, refinanced its $75 million of 6.387% first mortgage bonds through the issuance of $95 million of 6.447% first mortgage bonds. These new bonds mature in 2016 and are non-recourse to the Company. The additional proceeds raised from this refinancing, after fees and other expenses, were distributed equally to the joint venture partners.

In October 2009, the B.C. Superintendent of Pensions granted the Company a five-year extension to the time period within which amortization payments for solvency deficiencies are required to be made with respect to certain of its defined benefit pension plans. The extension was effective as of July 1, 2009 and amortized solvency contribution payments over 10 years ended December 2017, instead of five years ended December 2012. As a result, the Company's cash payments to the respective plans were reduced by $2.9 million in the second half of 2009 and are expected to be reduced by $5.7 million in 2010, for a total reduction of $8.6 million to the end of 2010. The payment schedule beyond 2010 will be established by the next formal actuarial valuation, which is required to be filed for the period ended no later than December 31, 2010.

In October 2009, the Company was allocated $18 million in credits under the federal government's "Green Transformation Program". To access these credits, the Company is required to submit capital project proposals that will improve energy efficiency and environmental performance at any of its mills in Canada for pre-approval no later than March 31, 2012. Funding will be applied as capital expenditures are incurred towards approved projects. The Company has identified a number of capital projects that, subject to pre-approval, would enable it to use the credits and plans to initiate these projects in 2010.

On March 10, 2010, pursuant to an exchange offer by the Company, senior unsecured notes of US$318.7 million at 8.625%, due June 2011, were exchanged for new senior secured notes of US$280.4 million at 11.0%, due December 2016, leaving US$35.5 million of senior unsecured notes due in June 2011 outstanding. For additional details refer to Section 5, "Liquidity and capital resources".

The Company's capital expenditures were $11.5 million in 2009, compared to $41.9 million in 2008 and $85.8 million in 2007. Refer to Section 5, "Liquidity and capital resources" for components of capital spending in 2009.

At December 31, 2009, the Company had liquidity of $157.4 million after taking into account the financial covenant to maintain excess availability above $35.0 million. This comprised $83.1 million cash and the availability of $74.3 million on the ABL Facility. Refer to Section 5, "Liquidity and capital resources" for further details.

SELECTED ANNUAL FINANCIAL INFORMATION

(In millions of dollars, except where otherwise stated)	**2009**	2008	2007
Sales	**$ 1,201.7**	$ 1,849.4	$ 1,714.6
Operating earnings (loss)	**(60.5)**	(157.4)	(149.4)
EBITDA [1]	**103.5**	159.4	27.0
– before specific items [1]	**121.4**	189.5	116.7
Net earnings (loss) attributable to the Company	**(4.4)**	(219.8)	(36.5)
– before specific items [1]	**(58.8)**	(25.6)	(89.3)
Total assets	**2,090.8**	2,390.3	2,438.3
Total long-term liabilities	**1,120.9**	1,238.5	1,278.3
EBITDA margin [1]	**8.6%**	8.6%	1.6%
– before specific items [1]	**10.1%**	10.2%	6.5%
Net earnings (loss) per share attributable to the Company's common shareholders (in dollars)			
– basic and diluted	**$ (0.01)**	$ (0.65)	$ (0.17)
– before specific items	**(0.15)**	(0.08)	(0.42)
Sales (000 tonnes)			
Specialty printing papers	**896.5**	1,080.8	1,054.8
Newsprint	**488.2**	601.8	496.3
Total paper	**1,384.7**	1,682.6	1,551.1
Pulp	**110.2**	506.9	603.2
Total sales	**1,494.9**	2,189.5	2,154.3
Production (000 tonnes)			
Specialty printing papers	**890.6**	1,060.1	1,055.4
Newsprint	**497.3**	596.8	472.8
Total paper	**1,387.9**	1,656.9	1,528.2
Pulp	**87.5**	503.4	601.8
Total production	**1,475.4**	2,160.3	2,130.0
US$/CDN$ foreign exchange [2]			
Average spot rate [(a)]	**0.876**	0.938	0.930
Period-end spot rate [(b)]	**0.956**	0.817	1.012
Average effective rate [(c)]	**0.898**	0.947	0.917
Common shares (millions)			
At period end	**381.8**	381.8	214.7
Weighted average	**381.8**	336.1	214.7

1 EBITDA, EBITDA before specific items, EBITDA margin, EBITDA margin 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. EBITDA margin and EBITDA margin before specific items are defined as EBITDA and EBITDA before specific items, as a percentage of sales and adjusted sales, respectively. Refer to Section 10, "Non-GAAP measures" for further details.

2 Foreign exchange rates:
a) Average spot rate is the average Bank of Canada noon spot rate over the reporting period.
b) Period-end spot rate is the Bank of Canada noon spot rate on December 31.
c) Average effective rate represents a blended rate which takes account of the applicable spot rates, the Company's revenue hedging program in the period, and translation of U.S. dollar-denominated working capital at period-opening and period-closing rates. See Section 9, "Summary of quarterly results" for further details.

STRATEGY

The Company's long-term objective is to achieve higher sustainable earnings and maximize cash flow by focusing on reducing costs, conserving cash and optimizing its brands and customer base.

Key Performance Drivers

The Company believes the following key performance drivers are critical to achieving its strategic goals and creating value for its investors.

Cost-competitive Manufacturing

The Company's manufacturing costs are key to being competitive over the long term particularly with respect to furnish, energy, and labour, and the Company is focused on reducing these costs and improving margins. There is a particular focus on finding ways to improve controllable operating costs and on developing more flexible and efficient work practices at the mills that will reduce manufacturing costs in the aggregate and create a shift in the proportion of fixed to variable costs. Major industry property taxes in the B.C. communities in which the Company's mills are located are well above those in other North American jurisdictions and the Company has actively pressed for a level playing field, pursuing municipal property tax reductions in 2009 through legal action and government relations. In addition, significant workforce reductions over the last three years have improved the Company's cost structure.

Capital expenditures of approximately $387 million over the past six years have been focused on shifting production towards higher-margin printing papers, reducing unit production costs, increasing machine productivity, improving product quality, and meeting or exceeding environmental regulations. Over the last two years, the Company completed the upgrade of thermomechanical pulp ("TMP") capacity to reduce the amount of higher-cost old newspaper ("ONP") furnish required to produce newsprint and directory grades at its B.C. mills. In addition, the Company invested in its Snowflake mill to enable its transition away from a single recycled newsprint commodity grade.

Product Mix

The Company is focused on optimizing its product mix by developing higher-value grades, allowing it to exploit niche opportunities in the marketplace. During 2009, the Company broadened the product mix at its Snowflake mill to include recycled uncoated mechanical grades on its two paper machines which had previously been limited to recycled newsprint. In recent years, the Company has introduced new product lines, including Electraprime (an SC-A alternative), Electrastar (a super-bright), Electrabrite Lite (a lightweight high-bright), and Electracote Brite (a higher-brightness Electracote grade). These specialized products generally provide higher margins and improved demand prospects than standard commodity grades. The Company also managed fluctuations in demand for its products through its ability to switch production capacity between products, particularly newsprint, directory, and machine-finished uncoated mechanical grades.

Production and Capacity Utilization

Production rates and production downtime affect the Company's per-unit cash costs. Over the last several years, the Company has focused on improving machine productivity through initiatives such as implementing an asset reliability program, operator technical training and reducing machine dry-end losses. During 2009, the ability to curtail production capacity while at the same time eliminating and minimizing fixed operational costs was a key focus for the Company, and significant cost reductions were achieved as a result.

Market Position

Market position is a significant driver of the Company's success. As one of the largest producers of specialty printing papers in North America and the largest producer in western Canada, the Company's market penetration and diversification are important. The Company's brand names are well recognized in the marketplace and the Company has built a reputation for reliability, value and service.

Supply Chain

Distribution costs have a significant impact on net sales realizations. The Company's strong and flexible distribution network optimizes all transportation modes available to it, including barge, truck, rail, and break-bulk and container shipping.

The Company's B.C. mills ship break-bulk paper and pulp directly to offshore customers via regularly scheduled vessels. The Company operates a central distribution centre in Surrey, B.C., which receives products from the four B.C. mills and ships them to customers via rail, truck and container. This allows the Company to choose the most cost-effective transportation mode while meeting customer requirements.

The Company has available 635 rail cars, compared to 980 in 2008, to ensure on-time delivery to its customers and it leases five paper barges that transport its products to the Surrey distribution centre. Controlling key elements of its supply chain has allowed the Company to achieve a high on-time performance level and a low damage rate.

Corporate Social Responsibility

Corporate social responsibility is one of the Company's core values. The Company judges success in this area in part through the safety and well-being of its employees, the sustainability of the Company's practices and products with respect to their impact on the environment, and its relationships with operating communities and other stakeholders. A complete description of the Company's commitments and progress with respect to corporate social responsibility is provided in the Company's 2009 Sustainability Report, produced concurrently with the Company's 2009 Annual Report.

Key Performance Indicators

The Company believes the following key performance indicators provide meaningful measurement of its progress in achieving its strategic goals and creating value for investors:

Safety

The Company's first operating priority is the safety of its employees. Key metrics include the medical incident rate ("MIR"), which is the number of incidents requiring medical attention per 200,000 hours worked, and the lost-time injury frequency ("LTI"), which is the number of lost-time injuries per 200,000 hours worked. The Company's safety performance, as reflected in these two measures, showed a small improvement in 2009, although there was an increase in the average severity of injuries as measured by the days lost for the lost-time injuries. Additional details on 2009 safety results are provided in the Company's 2009 Sustainability Report.

EBITDA and EBITDA Before Specific Items

EBITDA and EBITDA before specific items are widely used in the financial community to compare the profitability of corporations, and are used by management as an indicator of relative operating performance. Further analysis of these indicators is provided in discussions of operations throughout the MD&A and, more specifically, in Section 10, "Non-GAAP measures".

Average Sales Revenue per Tonne

Average sales revenue per tonne for each product line provides key insights into how the Company maximizes its market position and product mix. The main factors in revenue growth are U.S. dollar transaction prices and the relationship between the Canadian and U.S. dollars. Details on 2009 results are provided in Section 2, "Segmented results – annual" and Section 3, "Segmented results – quarterly".

Average Delivered Cash Costs per Tonne and Average Delivered Cash Costs per Tonne Before Specific Items

Reducing cash costs while maintaining product quality is essential to sustaining profitability in each of the Company's core businesses. The Company continually examines all areas of its business for cost-reduction opportunities. The Company is currently targeting a labour cost structure of $80 per tonne at each mill as a key element of reducing costs. Details on 2009 results are provided in Section 2, "Segmented results – annual" and Section 3, "Segmented results – quarterly".

Free Cash Flow

Free cash flow is a measure of cash that is generated from operations after capital expenditures, interest and income tax payments, and after funding of employee future benefits, but before acquisitions, proceeds from rights offerings and divested assets, and changes in working capital items. Further analysis and discussion of this indicator is provided in Section 10, "Non-GAAP measures".

Leverage and Interest Coverage

The Company's success also depends on its liquidity and continued ability to finance its growth. The Company focuses on net-debt to net-capitalization, net-debt to EBITDA, and EBITDA to interest ratios in order to assess its capital structure. Further analysis and discussion of these indicators are provided in Section 5, "Liquidity and capital resources".

Greenhouse Gas Emissions

The Company has long recognized the importance of greenhouse gas ("GHG") emission reductions, from the perspective of both stakeholders' expectations and expanding regulatory requirements. At its Canadian operations, direct GHG emissions were down 85% in 2009 relative to 1990 levels on an absolute basis (74% on an intensity basis), compared to a reduction of 73% in 2008. The absolute reduction in GHG emissions in 2009 compared to 2008 is primarily due to lower production levels in 2009. Further details are provided in the Company's 2009 Sustainability Report.

2009 Strategic Initiatives

The Company's progress on 2009 key priorities was as follows:

Focus on cash flows and liquidity through the prudent use of capital, including limiting capital expenditures to basic maintenance of business levels:

- Generated free cash flow in 2009 of $29.3 million and increased liquidity by $12.1 million in 2009 compared with 2008.
- Maintained capital spending at $11.5 million in 2009, comprising $3.7 million for upgrades and $7.8 million for safety, environment and maintenance of business in 2009, compared to $41.9 million in 2008 and $85.8 million in 2007.
- Implemented cash conservation measures such as a freeze on salaries for the second consecutive year, cancellation of salary incentive awards payments, and extensions to defined benefit pension plan solvency amortization payments.
- Qualified for $18 million of Green Transformation Program credits to fund future qualifying capital projects.
- Refinanced $75 million of PREI's existing debt upon maturity with $95 million of new first mortgage bonds maturing in 2016.
- Purchased for cancellation US$45.8 million of its senior notes due in June 2011 and commenced the exchange offer and consent solicitation process with the remaining qualifying senior note holders in relation to refinancing the senior notes due in June 2011, a process which was subsequently closed on March 10, 2010. For additional details, refer to Section 5, "Liquidity and capital resources".

Maintain the Company's focus on matching production to customer orders and keep paper inventories at appropriate levels:

- Production curtailment of 880,300 tonnes in 2009 represented 30% of paper capacity and 70% of market pulp capacity, and paper finished goods inventory levels at December 31, 2009 of 49,900 tonnes compared to an average quarter-end paper inventory level of 68,500 tonnes in 2008 and 51,700 tonnes at the end of Q3.

Identify further opportunities to reduce fixed costs during periods of production curtailment to minimize the financial impact of operating at reduced volumes:

- Implemented plans to eliminate discretionary spending on various benefits provided to employees, such as Company-provided automobiles and club memberships and fees, establishing a low-cost culture from the top down.
- Implemented restructuring initiatives to reduce salary and labour costs through both permanent reductions and lay-offs. Announced changes to Company salaried employee pension and benefit plans, effective January 1, 2010, including the cessation of benefits related to future services under the defined benefit plan and replacement of the current extended health benefit program with a core program. A cost-sharing arrangement will also be introduced for the provincial medical services plan premiums. The Company expects that, once fully implemented, these initiatives will result in a combined annual savings of approximately $25 million, comprised of approximately $17 million related to labour and salary reductions, and approximately $8 million related to pension and other employee benefit changes.
- Realized fixed cost savings of approximately $163 million in 2009 compared to 2008, comprising approximately $137 million in cost reductions related to production curtailments, and approximately $26 million in cost reductions from efforts by employees at all levels to reduce discretionary spending and to identify and implement efficiency opportunities.
- Settled an arbitration proceeding with Island Cogeneration No. 2 Inc. ("ICP"), thereby eliminating a contingent liability to purchase a minimum quantity of steam, terminating an obligation to purchase steam from ICP in the future, and enabling the Company to seek out alternative sources of energy at lower cost.

Implement plans to reduce labour costs to $80 per tonne:

- Completed the restructuring plan for the Powell River mill and continued to implement changes to staffing structures and work practices to achieve the $80 per tonne labour target at the Port Alberni, Powell River and Crofton mills. The Snowflake mill's labour agreements were extended to February 2011.
- Presented a plan to the two union locals at Elk Falls that would enable the restart of the machine-finished uncoated and soft nip paper machines. The plan was designed to reduce labour costs to levels that are reported to have been agreed between some Communications, Energy and Paperworkers ("CEP") locals and other employers in the industry; however, the plan was rejected by the union locals. The Company continues to pursue this initiative.

Reduce municipal property taxes in four of the municipalities in B.C. in which the Company operates:

- Petitioned the Supreme Court of B.C. for judicial review of municipal property tax rates in four of the municipalities in which the Company operates. The property tax assessments from these municipalities totalled $19.3 million for 2009, of which the Company has paid $6.0 million. The four petitions were dismissed during 2009, with the exception of the Regional District portion of the petition related to Campbell River. The Company has appealed the four rulings.
- The City of Port Alberni has commenced an action in the Supreme Court of B.C. seeking payment of $3.3 million in unpaid taxes, plus applicable penalties and interest. For additional details, refer to the discussion "Property Tax Dispute" earlier in this section.

Thermomechanical pulp investment at Port Alberni to improve cost competitiveness:

- Completed the upgrade to the TMP plant at the Port Alberni mill in May 2009 at a total capital cost of approximately $8 million, compared to a planned amount of $12 million. The capital upgrade increased TMP capacity, displacing recycled DIP and further improving the cost competitiveness of the Port Alberni mill.

Corporate social responsibility:

- The Company's strategic initiatives associated with environmental performance and, more broadly, with corporate social responsibility, and an update on its related performance and achievements are described in its 2009 Sustainability Report. Significant achievements in 2009 included, but were not limited to, obtaining Forest Stewardship Council chain-of-custody certification for its recycled newsprint mill in Snowflake, obtaining chain-of-custody certification from the Programme for the Endorsement of Forest Certification for the four Canadian paper mills, and being named for the third consecutive year a Climate Disclosure Leader for exceptional transparency relating to climate change.

See Section 16, "Outlook" for details of the Company's key priorities for 2010.

CONSOLIDATED RESULTS OF OPERATIONS

Year ended December 31, 2009 compared to year ended December 31, 2008

Sales

Sales in 2009 decreased $647.7 million, or 35.0% from 2008. The decrease was due to lower average transaction prices across the Company's products, and decreased volumes due to increased production curtailments and the loss of pulp and white top linerboard sales volumes due to the closure of the Elk Falls pulp mill and white top linerboard operation in November 2008. These negative impacts were partially offset by a full year's inclusion of the Snowflake mill in 2009, compared to only a partial year's inclusion in 2008 beginning from the date of acquisition in April.

The following table highlights the factors that affected the Company's sales by segment:

SALES

Year ended December 31, (In millions of dollars)	2009	2008	Total change	Increase (decrease) from 2008 as a result of Volume	Price [1]	F/X
Specialty printing papers	**$ 815.3**	$ 1,000.9	$ (185.6)	$ (170.7)	$ (43.5)	$ 28.6
Newsprint	**317.7**	463.9	(146.2)	(87.5)	(74.1)	15.4
Total paper	**1,133.0**	1,464.8	(331.8)	(258.2)	(117.6)	44.0
Pulp	**68.7**	384.6	(315.9)	(301.1)	(19.4)	4.6
Total	**$ 1,201.7**	$ 1,849.4	$ (647.7)	$ (559.3)	$ (137.0)	$ 48.6

1 Price is inclusive of sales mix.

EBITDA AND EBITDA BEFORE SPECIFIC ITEMS

(In millions of dollars)	EBITDA [1]	EBITDA before specific items [1, 4]
2008	**$ 159.4**	**$ 189.5**
Paper prices	(117.6)	(117.6)
Pulp prices	(19.4)	(19.4)
Impact of Canadian dollar on sales, inclusive of hedging [2]	48.6	48.6
Production volume and mix [3]	(70.0)	(70.0)
Distribution costs	14.8	14.8
Furnish mix and costs	30.0	30.0
Chemical costs	4.2	4.2
Energy costs	4.1	4.1
Labour costs	9.4	9.4
Maintenance	12.7	12.7
Other fixed costs	4.2	4.2
Lower of cost or market impact on inventory, net of inventory change	12.8	12.8
Restructuring costs	12.2	–
Other, net	(1.9)	(1.9)
2009	**$ 103.5**	**$ 121.4**

1 EBITDA and EBITDA before specific items are non-GAAP measures. Refer to Section 10, "Non-GAAP measures" for further details.
2 Estimated total impact on EBITDA of average foreign exchange effective rate movement period-to-period is $30 million.
3 Volume and mix impact is net of favourable impact of additional $136.8 million of fixed cost reductions due to curtailed operations.
4 Specific items included restructuring costs.

Operating Earnings (Loss)

The Company's operating loss decreased by $96.9 million in 2009 from 2008. This was partly due to an asset-impairment charge of $17.4 million related to excess machine capacity in 2009 compared to an asset-impairment charge of $151.0 million primarily related to the closure of the Elk Falls pulp mill and white top linerboard operation in 2008. In addition, a reduction in depreciation and amortization expense of $19.2 million as a result of the 2008 write-down and reduced depreciation and amortization related to idled Crofton pulp assets, while partly offset by lower EBITDA, contributed to the reduction in operating loss.

Net Earnings (Loss) Attributable to the Company

Net loss attributable to the Company of $4.4 million in 2009 ($0.01 per common share) improved $215.4 million from net loss attributable to the Company of $219.8 million ($0.65 per common share) in 2008. Net loss attributable to the Company before specific items in 2009 was $58.8 million ($0.15 per common share), a deterioration of $33.2 million from a net loss attributable to the Company before specific items of $25.6 million ($0.08 per common share) in the previous year. Refer to Section 10, "Non-GAAP measures" for details on net earnings (loss) attributable to the Company before specific items.

The following table reconciles 2009 net earnings (loss) to 2008:

(In millions of dollars)	Pre-tax	After-tax
2008 net earnings (loss) attributable to the Company	**$ (310.5)**	**$ (219.8)**
Lower EBITDA before specific items	(68.1)	(45.8)
Lower restructuring costs	12.2	8.2
Lower depreciation and amortization expense	19.2	11.8
Lower impairment charge in 2009	133.6	98.0
Change in foreign exchange gain (loss) on long-term debt	157.5	133.5
Gain on cancellation of long-term debt in 2009	30.7	26.1
Lower other income, net	(14.3)	(10.0)
Lower interest expense	5.7	3.2
Income tax adjustments, net	–	(11.6)
Change in net earnings (loss) attributable to non controlling interest	2.0	2.0
2009 net earnings (loss) attributable to the Company	**$ (32.0)**	**$ (4.4)**

2 SEGMENTED RESULTS – ANNUAL

SPECIALTY PRINTING PAPERS

(In millions of dollars, except where otherwise stated)	2009	2008	2007
Sales	**$ 815.3**	$ 1,000.9	$ 919.6
Operating earnings (loss)	**25.5**	27.0	(75.1)
EBITDA [1]	**119.3**	139.5	26.2
– before specific items [1]	**131.0**	150.1	73.4
EBITDA margin [1]	**14.6%**	13.9%	2.8%
– before specific items [1]	**16.1%**	15.0%	8.0%
Sales (000 tonnes)	**896.5**	1,080.8	1,054.8
Production (000 tonnes)	**890.6**	1,060.1	1,055.4
Curtailment (000 tonnes) [2]	**185.4**	31.1	7.2
Average sales revenue per tonne	**$ 909**	$ 926	$ 872
Average delivered cash costs per tonne [3]	**776**	797	847
– before specific items [1,3]	**763**	787	802
Benchmark prices			
SC-A paper, 35 lb. (US$/ton) [4]	**798**	866	753
LWC paper, No. 5, 40 lb. (US$/ton) [4]	**808**	960	786
Telephone directory paper, 22.1 lb. (US$/ton) [4]	**758**	750	740

1 EBITDA, EBITDA before specific items, EBITDA margin, EBITDA margin before specific items, and average delivered cash costs per tonne before specific items are non-GAAP measures. EBITDA margin and EBITDA margin before specific items are defined as EBITDA and EBITDA before specific items as a percentage of sales and adjusted sales, respectively. Refer to Section 10, "Non-GAAP measures" for further details.

2 Curtailment consists of downtime related to the United Steel Workers ("USW") strike in 2007, downtime related to unavailability of fibre and market demand in 2008, and downtime related to market demand in 2009 (including the indefinite curtailment of E2).

3 Average delivered cash costs per tonne consist of cost of sales, excluding depreciation and amortization, and including the impact of the USW strike in 2007, selling, general and administration ("SG&A") costs, and restructuring and change-of-control costs. Average delivered cash costs per tonne before specific items consist of cost of sales, excluding depreciation and amortization, and including the impact of SG&A costs but excluding the impact of the USW strike in 2007 and restructuring and change-of-control costs.

4 Benchmark selling prices are sourced from Resource Information Systems, Inc. ("RISI").

Markets

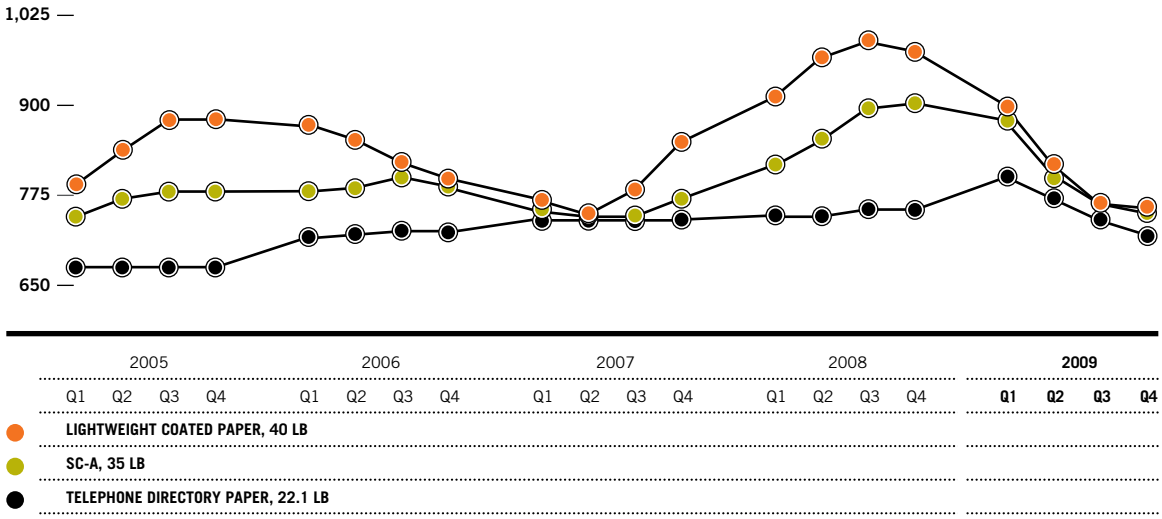
Market conditions were very weak across the Company's specialty printing paper products during 2009.

Coated mechanical demand was 19.8% lower in 2009 than in 2008, reflecting declines in the level of print advertising and consumer spending due to the global economic recession that persisted during most of 2009. Magazine and catalogue producers were most acutely affected and responded by reducing ad pages and circulation. As a consequence, prices for coated grades dropped steadily during 2009. The average 2009 LWC benchmark price decreased US$152 per ton, or 15.8%, over 2008.

Demand for uncoated mechanical grades was down 15.5% in 2009 from 2008. Weak advertising spending led to a decline of 18.9% in demand for high-gloss grades and a decline of 14.5% for standard grades in 2009 from 2008 levels. Uncoated mechanical pricing was weak in 2009 and the average benchmark price for SC-A in 2009 decreased US$68 per ton, or 7.9%, from 2008.

Directory paper demand was down 21.3% in 2009 due to a drop in small and medium business advertising, declines in white pages, smaller books, reduced circulation and the continued migration from printed books to the internet. Annual contract prices in 2009 were higher than 2008 prices; however, spot sales were well below 2008 levels as directory prices were negatively affected by low spot newsprint prices. The average benchmark price for directory in 2009 increased US$8 per ton, or 1.1%, from 2008.

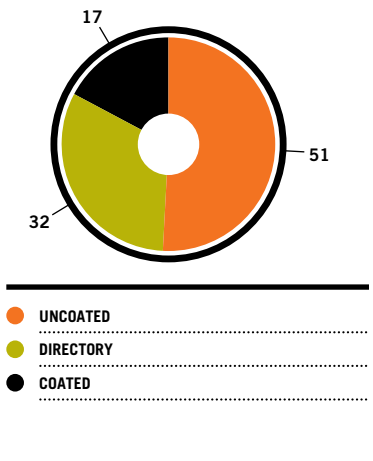
Specialty Printing Papers
Average delivered to U.S. benchmark transaction price (US$)
(Source: RISI)



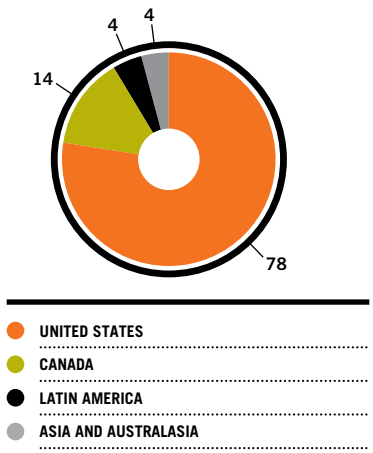
The 2009 specialty printing papers product-grade distribution, based on sales volume, is depicted in the chart below.

The 2009 specialty printing papers geographic sales distribution, based on sales volume, is depicted in the chart below.

Product Sales Distribution
(% tonnes)



Geographic Sales Distribution
(% tonnes)



Segment Overview

Demand for specialty printing papers is highly dependent upon the level of print advertising in North America. Although print advertising demand declined sharply in 2009, the Company remained focused on developing new specialty grades and seeking ways to further optimize its product, customer and geographic mix, most notably at its Snowflake mill where the grade mix was expanded from recycled newsprint to include higher-value uncoated grades. A continued focus on optimizing grade mix and reducing operating costs will enable the Company to take advantage of market conditions once they improve.

Sales volumes for LWC were down 48,500 tonnes in 2009, or 24.0%, from the previous year compared to a 19.5% decline in total North American coated mechanical shipments. The reduction was due to operational downtime on the LWC machine at Port Alberni and to shifting from coated to uncoated grades in response to weak demand for LWC paper in 2009.

Sales volumes for uncoated mechanical grades decreased 106,400 tonnes, or 18.9%, in 2009 from 2008, a decline that was comparable to the 16.0% reduction in total North American uncoated shipments. The decline in sales volumes for both SC and MF grades reflected overall weakness in North American print advertising and the indefinite closure in February 2009 of the soft nip paper machine at Elk Falls.

Sales volumes for directory in 2009 decreased 29,400 tonnes, or 9.3%, in 2009 from 2008, compared to an 18.6% decline in total North American directory shipments. The Company's experience relative to the overall market is indicative of the high proportion of its directory sales volume that is under contract. The decline in directory volumes was due to decreases in directory book circulation, reduced white pages, lower advertising by small and medium businesses, smaller books and the continued migration of printed books to the internet.

Operational Performance

Operating earnings for the specialty printing papers segment of $25.5 million in 2009 decreased $1.5 million from 2008. EBITDA and EBITDA before specific items decreased $20.2 million and $19.1 million in 2009, respectively, from 2008.

Sales volume decreased 184,300 tonnes in 2009 from 2008. The decrease was largely due to production curtailment stemming from weakness in market demand. Average sales revenue decreased $17 per tonne in 2009 from the previous year, reflecting lower average transaction prices across most grades that more than offset the positive impact of the weaker average Canadian dollar in 2009.

Average delivered cash costs improved $21 per tonne in 2009 from 2008. The improvement was primarily driven by lower distribution, furnish and maintenance costs as well as lower labour and salary costs due to restructuring initiatives, partially offset by the impact of production curtailment and a write-down of raw materials inventory. Before the impact of specific items, average delivered cash costs were $763 per tonne in 2009, an improvement of $24 per tonne from the previous year. Refer to Section 10, "Non-GAAP measures" for details on average delivered cash costs before specific items.

Outlook

Specialty printing paper markets are expected to remain challenging in 2010 as North American print advertising is not expected to recover substantially in the near term, and operating rates are anticipated to remain weak. Although demand is expected to be bolstered as mill and end-user inventories that have declined since mid-2008 are replenished, a real and sustained demand recovery for the Company's specialty printing paper grades is not anticipated in 2010. As a result, the Company expects that prices will be weaker in 2010 than in 2009, most significantly for directory paper. Prices for directory paper in 2010 have been established at levels that, on average, are approximately US$100 per ton lower than in 2009. This decrease is expected to reduce EBITDA by approximately $37 million in 2010 from 2009, based on a foreign exchange rate of US$0.95, and before taking into account the impact of any volume reductions in 2010. The impact of anticipated directory sales volume reductions is expected to further reduce EBITDA in 2010 by approximately $7 million.

NEWSPRINT

(In millions of dollars, except where otherwise stated)	2009	2008	2007
Sales	**$ 317.7**	$ 463.9	$ 338.0
Operating earnings (loss)	**(72.7)**	3.6	(56.9)
EBITDA [1]	**(10.8)**	43.3	(23.7)
– before specific items [1]	**(7.8)**	47.4	(4.4)
EBITDA margin [1]	**(3.4%)**	9.3%	(7.0%)
– before specific items [1]	**(2.5%)**	10.2%	(1.2%)
Sales (000 tonnes)	**488.2**	601.8	496.3
Production (000 tonnes)	**497.3**	596.8	472.8
Curtailment (000 tonnes) [2]	**455.4**	195.3	98.9
Average sales revenue per tonne	**$ 651**	$ 771	$ 681
Average delivered cash costs per tonne [3]	**673**	699	729
– before specific items [1,3]	**667**	692	674
Benchmark prices (US$/tonne) [4]			
Newsprint 48.8 gsm, West Coast delivery	**546**	687	579

1 EBITDA, EBITDA before specific items, EBITDA margin, EBITDA margin before specific items, and average delivered cash costs per tonne before specific items are non-GAAP measures. EBITDA margin and EBITDA margin before specific items are defined as EBITDA and EBITDA before specific items as a percentage of sales and adjusted sales, respectively. Refer to Section 10, "Non-GAAP measures" for further details.

2 Curtailment consists of downtime related to the USW strike in 2007, downtime related to unavailability of fibre and reduced market demand in 2008 (including the indefinite curtailment of E1), and downtime related to reduced market demand in 2009 (including the indefinite curtailment of E1 and E5).

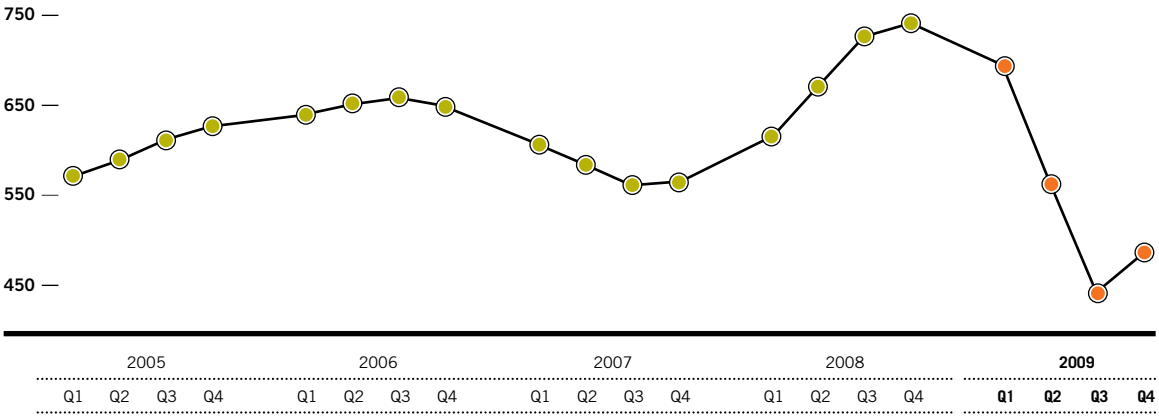
3 Average delivered cash costs per tonne consist of cost of sales, excluding depreciation and amortization, and including the impact of the USW strike in 2007, SG&A costs, and restructuring and change-of-control costs and impairment. Average delivered cash costs per tonne before specific items consist of cost of sales, excluding depreciation and amortization, and including the impact of SG&A costs but excluding the impact of the USW strike in 2007, restructuring and change-of-control costs and impairment.

4 Benchmark selling prices are sourced from RISI.

Markets

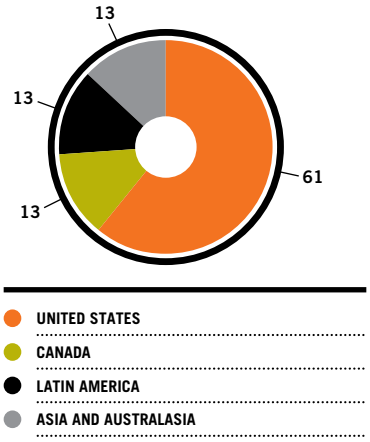
North American newsprint demand declined sharply in 2009 with total U.S. consumption down 23.3% year-over-year. Weak demand combined with over-supplied newsprint markets caused benchmark prices to plummet in the first three quarters of 2009, ultimately falling below cash costs for most producers. In Q4, benchmark prices began to recover as North American shipments and U.S. newsprint consumption improved marginally along with widespread production downtime. The Company implemented US$35 per tonne price increases in each of October and November 2009; however, the US$50 per tonne price increase announced for December 2009 was deferred to January 2010. The Company also announced a US$50 per tonne price increase for February 2010. The average newsprint benchmark price in 2009 was US$546 per tonne, down US$141 per tonne or 20.5% from 2008.

Standard Newsprint
Average delivered to U.S. West Coast benchmark transaction price (US$)
(Source: RISI)



The 2009 newsprint geographic sales distribution, based on sales volume, is depicted in the chart below.

Geographic Sales Distribution
(% tonnes)



Segment Overview

The Company undertook significant production curtailment in 2009 to address the ongoing structural decline of the newspaper industry and the resulting impact this decline had on demand for newsprint. The Company's total production of newsprint decreased 99,500 tonnes in 2009 from the prior year. The E1 machine at Elk Falls was curtailed throughout 2009, and the E5 paper machine was indefinitely curtailed in February 2009. These indefinite curtailments removed 326,300 tonnes of newsprint production in 2009. The balance of the newsprint curtailment in 2009 was primarily taken at the Crofton and Snowflake mills where newsprint machines were curtailed periodically.

Operational Performance

The newsprint segment's operating loss of $72.7 million in 2009 was a deterioration of $76.3 million from operating earnings of $3.6 million in 2008. EBITDA and EBITDA before specific items decreased $54.1 million and $55.2 million, respectively, in 2009 from 2008.

Sales volume in 2009 decreased 113,600 tonnes, or 18.9%, from the previous year, primarily due to the increased production curtailment of 260,100 tonnes, driven by lower newsprint demand. Average sales revenue decreased $120 per tonne in 2009 from the previous year. The impact of lower transaction prices was partially offset by the positive impact of the weaker Canadian dollar.

Average delivered cash costs decreased $26 per tonne in 2009 from the previous year. Lower distribution, maintenance, furnish and labour costs more than outweighed the negative impact of production curtailment and a write-down of raw materials inventory. Before the impact of specific items, average delivered cash costs were $667 per tonne in 2009, a decrease of $25 per tonne from the previous year. Refer to Section 10, "Non-GAAP measures" for details on average delivered cash costs before specific items.

Outlook

Previously announced price increases in the U.S. will be a challenge to implement given weak operating rates, and average prices for the year are expected to be lower in 2010. Newsprint demand in 2010 is expected to contract further due to declining circulation, page count reductions, further newsprint conservation measures by publishers and continued migration of information and advertising to the internet. Further newsprint price recovery in 2010, or even a sustained price recovery at current levels is uncertain as the imbalance between demand and supply is likely to intensify.

PULP

(In millions of dollars, except where otherwise stated)	**2009**	2008	2007
Sales	**$ 68.7**	$ 384.6	$ 457.0
Operating earnings (loss)	**(13.3)**	(188.0)	(17.4)
EBITDA [1]	**(5.0)**	(23.4)	24.5
– before specific items [1]	**(1.8)**	(8.0)	47.7
EBITDA margin [1]	**(7.3%)**	(6.1%)	5.4%
– before specific items [1]	**(2.6%)**	(2.1%)	9.8%
Sales (000 tonnes)	**110.2**	506.9	603.2
Production (000 tonnes)	**87.5**	503.4	601.8
Curtailment (000 tonnes) [2]	**239.5**	134.7	54.7
Average sales revenue per tonne	**$ 623**	$ 759	$ 757
Average delivered cash costs per tonne [3]	**668**	805	717
– before specific items [1,3]	**639**	774	679
Benchmark prices			
NBSK pulp, Northern Europe delivery (US$/tonne) [4]	**667**	840	800

1 EBITDA, EBITDA before specific items, EBITDA margin, EBITDA margin before specific items, and average delivered cash costs per tonne before specific items are non-GAAP measures. EBITDA margin and EBITDA margin before specific items are defined as EBITDA and EBITDA before specific items as a percentage of sales and adjusted sales, respectively. Refer to Section 10, "Non-GAAP measures" for further details.

2 Curtailment consists of downtime related to the USW strike in 2007, downtime related to unavailability of fibre and reduced market demand in 2008, and downtime related to reduced market demand in 2009 (including the indefinite curtailment of one line of Crofton pulp).

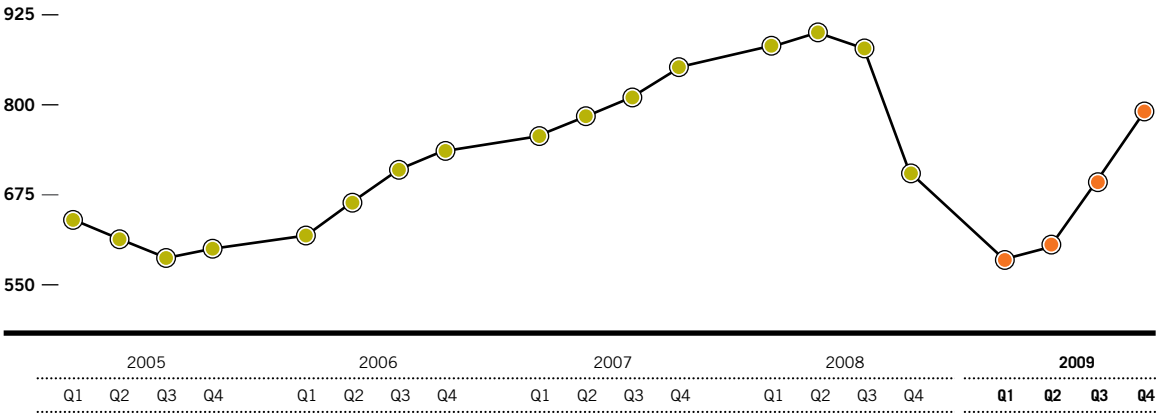
3 Average delivered cash costs per tonne consist of cost of sales, excluding depreciation and amortization, and including the impact of the USW strike in 2007, SG&A costs, and restructuring and change-of-control costs. Average delivered cash costs per tonne before specific items consist of cost of sales, excluding depreciation and amortization, and including the impact of SG&A costs but excluding the impact of the USW strike in 2007 and restructuring and change-of-control costs.

4 Benchmark selling prices are sourced from RISI.

Markets

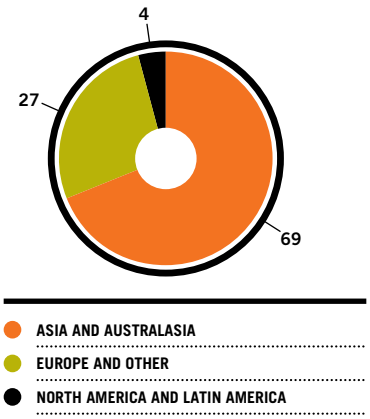
Benchmark NBSK prices declined sharply in Q1, bottoming out at US$575 per tonne in March 2009 amidst excess supply and weak global demand. With increasing producer downtime and strong buying from China due to non-wood pulp closures and organic growth in pulp demand, benchmark prices began to improve in Q2, although they remained at historically low levels. Benchmark prices began to recover rapidly late in Q3 and the Company announced pulp price increases of US$30 per tonne in each of October and November 2009.

Northern Bleached Softwood Kraft
Average delivered to Northern Europe benchmark transaction price (US$)
(Source: RISI)



The primary markets for the Company's market pulp are Asia and Europe. The 2009 pulp geographic sales distribution, based on sales volume, is depicted in the chart below.

Geographic Sales Distribution
(% tonnes)



Segment Overview

Pulp segment production volumes decreased 415,900 tonnes, or 82.6%, in 2009 from 2008 as a result of production curtailment at Crofton and the loss of volumes from the permanent closure of the Elk Falls pulp mill and white top linerboard operation, which occurred in November 2008. In response to the dramatic decline in pulp prices, the Crofton pulp mill was indefinitely curtailed on March 8, 2009. This removed the equivalent of 403,000 tonnes of annual production capacity. As market conditions improved in Q3, the Company restarted one of its two pulp production lines at Crofton on October 5, 2009. The restart of this line reinstated 222,000 tonnes of production capacity on an annualized basis. The second line at the Crofton mill remained curtailed for the balance of the year.

Operational Performance

The pulp segment operating loss of $13.3 million in 2009 was an improvement of $174.7 million from the operating loss in 2008. The improvement was due to the Elk Falls pulp mill and white top linerboard operation impairment charge of $136.5 million in 2008 and an increase in EBITDA of $18.4 million and a reduction in depreciation and amortization of $19.6 million in 2009. EBITDA before specific items increased $6.2 million from 2008. Refer to Section 10, "Non-GAAP measures" for details on EBITDA before specific items.

Sales volume decreased 396,700 tonnes in 2009 from the previous year, primarily due to the closure of the Elk Falls pulp mill and white top linerboard operation and the indefinite pulp production curtailment at Crofton. Average sales revenue declined $136 per tonne from 2008, due primarily to lower pulp prices, partially offset by a weaker Canadian dollar in 2009. The loss of white top linerboard from the sales mix further negatively affected average sales revenue per tonne in 2009, since the average sales revenue per tonne from white top linerboard has traditionally been higher than from NBSK pulp.

Average delivered cash costs decreased $137 per tonne in 2009 from 2008, partly due to lower distribution costs, offset by the impact of production curtailment and higher steam fuel costs. Other factors contributing to lower costs included lower lime kiln fuel and furnish costs, the absence of write-down to net realizable value of the Company's inventories as at December 31, 2009, and the positive impact on average costs of the loss of white top linerboard from the production mix. Before specific items, average delivered cash costs were $639 per tonne, a decrease of $135 per tonne from the previous year. Refer to Section 10, "Non-GAAP measures" for details on average delivered cash costs before specific items.

Outlook

The Company expects prevailing benchmark prices in 2009 to continue into 2010, supported by continued strong demand from China. The Company expects that Chinese buying patterns and requirements will continue to drive the market in 2010. The current low levels of NBSK pulp producer and end-user inventories, particularly in Europe will provide further support to price increases in the first half of 2010 if demand for end-use products improves. As a result, the Company announced pulp price increases of US$20 per tonne in January 2010 and US$30 per tonne in each of the months of February and March 2010. Prices may weaken once inventories are rebuilt and if pulp capacity that was idled in 2009 is restarted in 2010, from improvements to prices, continued U.S. governmental subsidies or other regulatory measures, or barriers to exit because of significant environmental restoration and remediation costs, all of which would serve to prolong conditions of excess supply.

3 SEGMENTED RESULTS – QUARTERLY

SELECTED QUARTERLY FINANCIAL INFORMATION

(In millions of dollars, except where otherwise stated)	2009 Total	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Total	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Sales	$1,201.7	$ 294.3	$ 263.4	$ 291.5	$ 352.5	$1,849.4	$ 492.2	$ 504.8	$ 452.9	$ 399.5
Operating earnings (loss)	(60.5)	(41.8)	(13.0)	(29.7)	24.0	(157.4)	11.5	14.0	(153.3)	(29.6)
EBITDA [1]	103.5	13.4	22.9	6.1	61.1	159.4	64.7	53.1	29.5	12.1
– before specific items [1]	121.4	14.8	22.9	18.4	65.3	189.5	65.9	66.2	30.7	26.7
Net earnings (loss) attributable to the Company	(4.4)	(35.8)	13.2	(1.9)	20.1	(219.8)	(48.5)	(10.9)	(121.9)	(38.5)
– before specific items [1]	(58.8)	(21.8)	(19.8)	(25.6)	8.4	(25.6)	9.3	7.2	(20.3)	(21.8)
EBITDA margin [1]	8.6%	4.6%	8.7%	2.1%	17.3%	8.6%	13.1%	10.5%	6.5%	3.0%
– before specific items [1]	10.1%	5.0%	8.7%	6.3%	18.5%	10.2%	13.4%	13.1%	6.8%	6.7%
Net earnings (loss) per share attributable to the Company's common shareholders (in dollars)										
– basic and diluted	$ (0.01)	$ (0.09)	$ 0.03	$ (0.01)	$ 0.06	$ (0.65)	$ (0.13)	$ (0.03)	$ (0.33)	$ (0.18)
– before specific items [1]	(0.15)	(0.06)	(0.05)	(0.06)	0.02	(0.08)	0.02	0.02	(0.06)	(0.10)
Sales (000 tonnes)										
Specialty printing papers	896.5	239.0	232.9	215.6	209.0	1,080.8	276.2	268.7	267.4	268.5
Newsprint	488.2	118.3	113.5	131.0	125.4	601.8	160.2	189.0	170.8	81.8
Total paper	1,384.7	357.3	346.4	346.6	334.4	1,682.6	436.4	457.7	438.2	350.3
Pulp	110.2	38.4	–	12.3	59.5	506.9	93.5	138.0	130.0	145.4
Total sales	1,494.9	395.7	346.4	358.9	393.9	2,189.5	529.9	595.7	568.2	495.7
Production (000 tonnes)										
Specialty printing papers	890.6	227.5	237.8	204.8	220.5	1,060.1	250.0	276.0	265.7	268.4
Newsprint	497.3	128.0	110.7	126.1	132.5	596.8	152.7	188.9	172.2	83.0
Total paper	1,387.9	355.5	348.5	330.9	353.0	1,656.9	402.7	464.9	437.9	351.4
Pulp	87.5	48.9	–	–	38.6	503.4	89.2	131.3	142.9	140.0
Total production	1,475.4	404.4	348.5	330.9	391.6	2,160.3	491.9	596.2	580.8	491.4
US$/CDN$ foreign exchange [2]										
Average spot rate [(a)]	0.876	0.947	0.911	0.857	0.803	0.938	0.825	0.961	0.990	0.996
Period-end spot rate [(b)]	0.956	0.956	0.933	0.860	0.794	0.817	0.817	0.944	0.982	0.973
Average effective rate [(c)]	0.898	0.937	0.921	0.893	0.856	0.947	0.868	0.971	0.989	0.967
Common shares (millions)										
At period-end	381.8	381.8	381.8	381.8	381.8	381.8	381.8	381.8	381.8	214.7
Weighted average	381.8	381.8	381.8	381.8	381.8	336.1	381.8	381.8	365.2	214.7

1 EBITDA, EBITDA before specific items, EBITDA margin, EBITDA margin 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. EBITDA margin and EBITDA margin before specific items are defined as EBITDA and EBITDA before specific items, as a percentage of sales and adjusted sales, respectively. Refer to Section 10, "Non-GAAP measures" for further details.

2 Foreign exchange rates:

a) Average spot rate is the average Bank of Canada noon spot rate over the reporting period.
b) Period-end spot rate is the Bank of Canada noon spot rate.
c) Average effective rate represents a blended rate which takes account of the applicable spot rates, the Company's revenue hedging program in the period, and translation of U.S. dollar-denominated working capital at period-opening and period-closing rates. See Section 9, "Summary of quarterly results" for further details.

SUMMARY OF SELECTED SEGMENTED QUARTERLY FINANCIAL INFORMATION

(In millions of dollars, except where otherwise stated)	2009 Total	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Total	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Specialty printing papers										
Sales	**$ 815.3**	**$ 202.5**	**$ 202.4**	**$ 199.7**	**$ 210.7**	$1,000.9	$ 281.9	$ 248.7	$ 235.3	$ 235.0
Operating earnings (loss)	**25.5**	**(1.7)**	**9.4**	**(3.6)**	**21.4**	27.0	22.6	14.6	(0.2)	(10.0)
EBITDA [1]	**119.3**	**21.7**	**33.8**	**19.2**	**44.6**	139.5	58.9	40.5	25.6	14.5
– before specific items [1]	**131.0**	**22.1**	**33.3**	**29.0**	**46.6**	150.1	57.9	40.6	26.1	25.5
EBITDA margin [1]	**14.6%**	**10.7%**	**16.7%**	**9.6%**	**21.2%**	13.9%	20.9%	16.3%	10.9%	6.2%
– before specific items [1]	**16.1%**	**10.9%**	**16.5%**	**14.5%**	**22.1%**	15.0%	20.5%	16.3%	11.1%	10.9%
Sales (000 tonnes)	**896.5**	**239.0**	**232.9**	**215.6**	**209.0**	1,080.8	276.2	268.7	267.4	268.5
Production (000 tonnes)	**890.6**	**227.5**	**237.8**	**204.8**	**220.5**	1,060.1	250.0	276.0	265.7	268.4
Curtailment (000 tonnes) [2]	**185.4**	**40.9**	**53.5**	**54.3**	**36.7**	31.1	27.5	2.7	–	0.9
Average sales revenue per tonne	**$ 909**	**$ 847**	**$ 869**	**$ 926**	**$ 1,008**	$ 926	$ 1,020	$ 925	$ 880	$ 875
Average delivered cash costs per tonne [3]	**776**	**757**	**724**	**837**	**795**	797	807	775	785	821
– before specific items [1,3]	**763**	**755**	**726**	**792**	**785**	787	810	774	783	780
SC-A paper, 35 lb. (US$/ton) [4]	**798**	**750**	**763**	**803**	**877**	866	902	895	850	815
LWC paper, No. 5, 40 lb. (US$/ton) [4]	**808**	**757**	**763**	**817**	**897**	960	975	988	965	910
Telephone directory paper, 22.1 lb. (US$/ton)4	**758**	**720**	**740**	**770**	**800**	750	755	755	745	745
Newsprint										
Sales	**$ 317.7**	**$ 66.0**	**$ 61.0**	**$ 85.1**	**$ 105.6**	$ 463.9	$ 143.0	$ 148.9	$ 118.3	$ 53.7
Operating earnings (loss)	**(72.7)**	**(38.6)**	**(18.8)**	**(23.8)**	**8.5**	3.6	10.6	11.9	(6.9)	(12.0)
EBITDA [1]	**(10.8)**	**(10.0)**	**(8.8)**	**(11.9)**	**19.9**	43.3	23.6	21.5	3.0	(4.8)
– before specific items [1]	**(7.8)**	**(9.8)**	**(8.6)**	**(10.0)**	**20.6**	47.4	23.5	21.6	3.5	(1.2)
EBITDA margin [1]	**(3.4%)**	**(15.2%)**	**(14.4%)**	**(14.0%)**	**18.8%**	9.3%	16.5%	14.4%	2.5%	(8.9%)
– before specific items [1]	**(2.5%)**	**(14.8%)**	**(14.1%)**	**(11.8%)**	**19.5%**	10.2%	16.4%	14.5%	3.0%	(2.2%)
Sales (000 tonnes)	**488.2**	**118.3**	**113.5**	**131.0**	**125.4**	601.8	160.2	189.0	170.8	81.8
Production (000 tonnes)	**497.3**	**128.0**	**110.7**	**126.1**	**132.5**	596.8	152.7	188.9	172.2	83.0
Curtailment (000 tonnes) [2]	**455.4**	**112.7**	**114.2**	**119.1**	**109.4**	195.3	72.7	42.7	38.3	41.6
Average sales revenue per tonne	**$ 651**	**$ 559**	**$ 537**	**$ 649**	**$ 843**	$ 771	$ 893	$ 788	$ 692	$ 657
Average delivered cash costs per tonne [3]	**673**	**643**	**615**	**741**	**684**	699	746	674	675	716
– before specific items [1,3]	**667**	**641**	**614**	**726**	**678**	692	746	674	672	671
Newsprint 48.8 gsm, West Coast delivery (US$/tonne) [4]	**546**	**485**	**442**	**564**	**692**	687	741	726	670	613

SUMMARY OF SELECTED SEGMENTED FINANCIAL INFORMATION (continued)

(In millions of dollars, except where otherwise stated)	2009 Total	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Total	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Pulp										
Sales	$ 68.7	$ 25.8	$ –	$ 6.7	$ 36.2	$ 384.6	$ 67.3	$ 107.2	$ 99.3	$ 110.8
Operating earnings (loss)	(13.3)	(1.5)	(3.6)	(2.3)	(5.9)	(188.0)	(21.7)	(12.5)	(146.2)	(7.6)
EBITDA [1]	(5.0)	1.7	(2.1)	(1.2)	(3.4)	(23.4)	(17.8)	(8.9)	0.9	2.4
– before specific items [1]	(1.8)	2.5	(1.8)	(0.6)	(1.9)	(8.0)	(15.5)	4.0	1.1	2.4
EBITDA margin [1]	(7.3%)	6.6%	–	(17.9%)	(9.4%)	(6.1%)	(26.4%)	(8.3%)	0.9%	2.2%
– before specific items [1]	(2.6%)	9.7%	–	(9.0%)	(5.2%)	(2.1%)	(23.0%)	3.7%	1.1%	2.2%
Sales (000 tonnes)	110.2	38.4	–	12.3	59.5	506.9	93.5	138.0	130.0	145.4
Production (000 tonnes)	87.5	48.9	–	–	38.6	503.4	89.2	131.3	142.9	140.0
Curtailment (000 tonnes) [2]	239.5	33.7	85.8	85.8	34.2	134.7	70.5	24.8	17.2	22.2
Average sales revenue per tonne	$ 623	$ 672	$ –	$ 548	$ 607	$ 759	$ 719	$ 777	$ 764	$ 762
Average delivered cash costs per tonne [3]	668	628	–	642	665	805	910	841	758	746
– before specific items [1,3]	639	609	–	595	640	774	886	748	756	746
NBSK pulp, Northern Europe delivery (US$/tonne) [4]	667	787	693	602	585	840	703	878	900	880

1 EBITDA, EBITDA before specific items, EBITDA margin, EBITDA margin before specific items, and average delivered cash costs per tonne before specific items are non-GAAP measures. EBITDA margin and EBITDA margin before specific items are defined as EBITDA and EBITDA before specific items as a percentage of sales and adjusted sales, respectively. Refer to Section 10, "Non-GAAP measures" for further details.

2 2008 curtailment consists of downtime related to unavailability of fibre and market demand and includes the impact on production in Q4, 2008 of the closure of the pulp mill and white top linerboard operation at Elk Falls in November 2008 (39,200 tonnes in Q4 from date of permanent closure to year-end). 2009 paper curtailment includes 130,400 tonnes of specialty printing papers related to E2 (indefinitely curtailed on February 23, 2009), 15,000 tonnes of specialty printing papers and 138,500 tonnes of newsprint related to E1 (indefinitely curtailed throughout 2009), and 187,900 tonnes of newsprint related to E5 (indefinitely curtailed on February 23, 2009). 2009 pulp curtailment includes curtailment related to Crofton pulp which was indefinitely curtailed on March 8, 2009, one line of which was restarted on October 5, 2009 with the second line continuing to be curtailed.

3 Average delivered cash costs per tonne consist of cost of sales, excluding depreciation and amortization, and including the impact of SG&A, restructuring costs, and impairment. Average delivered cash costs per tonne before specific items consist of cost of sales, excluding depreciation and amortization, and including the impact of SG&A, but excluding the impact of restructuring costs and impairment.

4 Benchmark selling prices are sourced from RISI.

Fourth Quarter Overview

Many sectors began to recover in Q4, 2009 from the economic recession; however, recovery of demand and prices for the Company's products was mixed. Directory benchmark prices decreased in Q4 from the prior quarter due to weak demand resulting from declines in small and medium business advertising, smaller books, reductions in white pages, lower circulation and migration from printed books to the internet. Despite a seasonal improvement in retail advertising demand in Q4, coated and uncoated benchmark prices decreased from Q3, as producers with swing machines added supply to already shrinking markets. Benchmark prices for newsprint increased during Q4, although the increase was primarily in response to very weak prices in Q3 and lower producer and end-user inventory levels as opposed to an increase in demand or contraction in supply. Benchmark prices for pulp increased during Q4 driven by continued strong demand in China and by low producer and end-user inventory levels.

The Company implemented newsprint price increases of US$35 per tonne in each of October and November 2009, and announced an increase of US$50 per tonne for December 2009, which was deferred to January 2010. The Company also implemented price increases for pulp of US$30 per tonne in each of October and November 2009.

The Company continued to focus on reducing maintenance and other operating costs in Q4. However, the impact of declining specialty printing paper prices, higher depreciation and amortization and restructuring costs, and a lower foreign exchange gain on the translation of long-term debt more than offset the positive impact of cost reductions. As a result, the Company's net earnings declined in Q4 from the preceding quarter.

The Company recorded a net loss attributable to the Company of $35.8 million ($0.09 per common share) in Q4, compared to net earnings attributable to the Company of $13.2 million ($0.03 per common share) in Q3. Excluding specific items, Q4 generated a net loss attributable to the Company of $21.8 million ($0.06 per common share) compared to net loss attributable to the Company before specific items of $19.8 million ($0.05 per common share) in Q3. Refer to Section 10, "Non-GAAP measures" for details on net earnings (loss) attributable to the Company before specific items.

EBITDA was $13.4 million in Q4, compared to $22.9 million in Q3. The Company's results included restructuring costs of $1.4 million in Q4, compared to $nil in Q3. Q4 EBITDA before specific items was $14.8 million, a decrease of $8.1 million from EBITDA before specific items of $22.9 million in Q3.

During Q4, the Company offered to exchange its senior notes due June 2011 with senior notes due December 2016, and solicited the consent of the note holders to amend the terms of the note indenture. The bond exchange was subsequently completed on March 10, 2010. Refer to Section 5, "Liquidity and capital resources" for more details.

The following table summarizes pulp and paper production curtailment in Q4, 2009:

Q4, 2009 PRODUCTION CURTAILMENT

(In thousands of tonnes)	Specialty printing papers	Newsprint	Pulp	Total
Crofton [1]	2.4	8.2	33.7	44.3
Elk Falls [1]	38.5	94.1	–	132.6
Snowflake	–	10.4	–	10.4
Total	40.9	112.7	33.7	187.3

1 Curtailment includes market curtailment related to E1, E2 and E5, and to one line of Crofton pulp production, all of which are indefinitely curtailed.

Production curtailment of 47% of newsprint capacity, 14% of specialty printing papers capacity, and 39% of market pulp capacity in Q4, 2009, represented production curtailment of 31% of total market capacity, compared to 42% in Q3. The decrease was primarily due to the restart of one of two pulp production lines at Crofton on October 5, 2009, reinstating 222,000 tonnes of NBSK pulp capacity on an annualized basis, partially offset by market curtailment at Snowflake and Crofton during the holiday season.

CONSOLIDATED RESULTS OF OPERATIONS

Three months ended December 31, 2009 compared to three months ended September 30, 2009

Sales

Sales in Q4, 2009 increased $30.9 million, or 11.7%, compared to Q3, 2009. The increase was due to higher prices for newsprint and pulp, and higher sales volumes due to the restart of one pulp production line at Crofton on October 5, 2009, partially offset by lower prices for specialty grades and the impact of a stronger Canadian dollar during Q4.

EBITDA AND EBITDA BEFORE SPECIFIC ITEMS

(In millions of dollars)	EBITDA [1]	EBITDA before specific items [1,3]
Q3, 2009	**$ 22.9**	**$ 22.9**
Paper prices	1.1	1.1
Impact of Canadian dollar on sales, inclusive of hedging [2]	(4.7)	(4.7)
Production volume and mix	10.3	10.3
Furnish mix and costs	(4.7)	(4.7)
Energy costs	0.9	0.9
Maintenance	(3.3)	(3.3)
Lower of cost or market impact on inventory, net of inventory change	(6.0)	(6.0)
Restructuring costs	(1.4)	–
Other, net	(1.7)	(1.7)
Q4, 2009	**$ 13.4**	**$ 14.8**

1 EBITDA and EBITDA before specific items are non-GAAP measures. Refer to Section 10, "Non-GAAP measures" for further details.

2 Estimated total impact on EBITDA of average foreign exchange effective rate movement period-to-period is negative $2 million.

3 Specific items included restructuring costs.

Operating Earnings (Loss)

The Company's operating loss of $41.8 million in Q4 increased $28.8 million from Q3, 2009 due to a reduction in EBITDA of $9.5 million in Q4, an increase in depreciation and amortization of $1.9 million, and a $17.4 million asset-impairment charge taken as a result of excess capacity in Q4.

Net Earnings (Loss) Attributable to the Company

Net loss attributable to the Company in Q4 of $35.8 million ($0.09 per common share) in Q4, 2009 was a deterioration of $49.0 million from net earnings attributable to the Company of $13.2 million ($0.03 per common share) in Q3. The decrease in earnings was primarily related to an after-tax foreign exchange gain of $9.5 million on the translation of long-term debt in Q4, compared to an after-tax gain of $33.0 million in Q3 and an after-tax asset-impairment charge of $13.1 million taken in Q4. Net loss attributable to the Company before specific items was $21.8 million ($0.06 per common share) in Q4, compared to a net loss attributable to the Company before specific items of $19.8 million ($0.05 per common share) in the previous quarter. Refer to Section 10, "Non-GAAP measures" for details on net earnings (loss) attributable to the Company before specific items.

Operational Performance – Specialty Printing Papers

Operating loss for the specialty printing papers segment in Q4, 2009 was $1.7 million, a deterioration of $11.1 million from Q3.

Sales volumes in Q4 increased by 6,100 tonnes from Q3 due to higher shipments of uncoated and directory grades. Average sales revenue decreased $22 per tonne from the previous quarter, due primarily to the stronger Canadian dollar and lower uncoated transaction prices in Q4.

Average delivered cash costs in Q4 increased $33 per tonne from Q3 due primarily to higher restructuring, furnish and fuel costs. Before the impact of specific items, average cash costs were $755 per tonne in Q4, an increase of $29 per tonne from the previous quarter.

Operational Performance – Newsprint

Operating loss for the newsprint segment in Q4, 2009 was $38.6 million, a deterioration of $19.8 million from the previous quarter, largely due to the asset-impairment charge of $17.4 million taken in Q4.

Sales volumes in Q4 increased 4,800 tonnes from Q3 primarily due to decreased production curtailment. Average sales revenue increased $22 per tonne from Q3 due primarily to the impact of price increases in Q4, partially offset by the negative impact of the stronger Canadian dollar.

Average delivered cash costs in Q4 increased $28 per tonne from Q3 due to higher furnish and maintenance costs. Before the impact of specific items, average cash costs were $641 per tonne in Q4, an increase of $27 per tonne from the previous quarter.

Operational Performance – Pulp

Operating loss for the pulp segment was $1.5 million in Q4, 2009, an improvement of $2.1 million from the previous quarter, primarily as a result of the restart of one line of pulp production at Crofton during Q4.

Sales volumes in Q4 were 38,400 tonnes. There were no pulp sales in Q3 due to the curtailment of pulp production lines at Crofton throughout Q2 and Q3. Average sales revenue was $672 per tonne in Q4.

Average delivered cash costs were $628 per tonne in Q4 and average cash costs before specific items were $609 per tonne.

Three months ended December 31, 2009 compared to three months ended December 31, 2008

Sales

Sales decreased by $197.9 million in Q4, 2009 from sales in the same period of 2008. The decline was due to lower sales volume, lower average paper prices and a stronger Canadian dollar in Q4, 2009. Sales volume declined as a result of increased production curtailment in Q4, 2009 and sales volume from Elk Falls pulp mill and white top linerboard production that was permanently closed in November 2008.

EBITDA AND EBITDA BEFORE SPECIFIC ITEMS

(In millions of dollars)	EBITDA [1]	EBITDA before specific items [1,4]
Q4, 2008	**$ 64.7**	**$ 65.9**
Paper prices	(63.8)	(63.8)
Impact of Canadian dollar on sales, inclusive of hedging [2]	(18.7)	(18.7)
Production volume and mix [3]	(10.9)	(10.9)
Distribution costs	7.8	7.8
Furnish mix and costs	10.4	10.4
Chemical costs	3.5	3.5
Energy costs	3.8	3.8
Labour costs	6.1	6.1
Maintenance	4.9	4.9
Other fixed costs	3.0	3.0
Lower of cost or market impact on inventory, net of inventory change	8.4	8.4
Restructuring costs	(0.2)	–
Other, net	(5.6)	(5.6)
Q4, 2009	**$ 13.4**	**$ 14.8**

1 EBITDA and EBITDA before specific items are non-GAAP measures. Refer to Section 10, "Non-GAAP measures" for further details.

2 Estimated total impact on EBITDA of average foreign exchange effective rate movement period-to-period is negative $11 million.

3 Volume and mix impact is net of favourable impact of additional $23.3 million of fixed cost reductions due to curtailed operations.

4 Specific items included restructuring costs.

Operating Earnings (Loss)

The Company's operating loss of $41.8 million in Q4 was a deterioration of $53.3 million from Q4, 2008. The decline was primarily related to a reduction in EBITDA of $51.3 million and the $17.4 million asset-impairment charge related to excess machine capacity in Q4, compared to the $14.5 million asset-impairment charge in Q4, 2008, partially offset by a reduction in depreciation and amortization of $0.9 million in Q4, 2009.

Net Earnings (Loss) Attributable to the Company

Net loss attributable to the Company of $35.8 million ($0.09 per common share) in Q4, 2009 decreased $12.7 million from net loss attributable to the Company of $48.5 million ($0.13 per common share) in Q4, 2008. Net loss attributable to the Company in Q4, 2009 included an after-tax foreign exchange gain of $9.5 million on the translation of U.S. dollar-denominated long-term debt in Q4 compared to an after-tax loss of $45.2 million in Q4, 2008. Net loss attributable to the Company before these and other specific items in Q4, 2009 was $21.8 million ($0.06 per common share) compared to net earnings attributable to the Company before specific items of $9.3 million ($0.02 per common share) in Q4, 2008. Refer to Section 10, "Non-GAAP measures" for details on net earnings (loss) attributable to the Company before specific items.

Operational Performance – Specialty Printing Papers

Operating loss for the specialty printing papers segment was $1.7 million in Q4, 2009, a deterioration of $24.3 million from Q4, 2008.

Sales volumes decreased 37,200 tonnes in Q4, 2009 from the comparative period in 2008. The decline was largely due to increased production curtailment. Average sales revenue decreased by $173 per tonne in Q4, 2009 from the comparative period in 2008, due primarily to lower average transaction prices across most of the Company's paper products and a stronger Canadian dollar in the quarter.

Average delivered cash costs decreased $50 per tonne in Q4, 2009 from the same period in 2008. The decrease was primarily due to lower distribution, furnish, conversion, labour and maintenance costs, which more than offset the impact of higher restructuring costs, write-downs on raw materials inventory and production curtailment. Before the impact of specific items, average delivered cash costs decreased $55 per tonne in Q4, 2009.

Operational Performance – Newsprint

Operating loss for the newsprint segment was $38.6 million in Q4, 2009, a deterioration of $49.2 million from Q4, 2008.

Sales volumes decreased 41,900 tonnes in Q4, 2009 from the comparative period in 2008, primarily due to higher production curtailment. Average sales revenue decreased $334 per tonne due to lower transaction prices and the negative impact of the stronger Canadian dollar in Q4, 2009.

Average delivered cash costs decreased $103 per tonne in Q4, 2009 from the comparative period in 2008 due to lower furnish, chemicals, energy, labour and maintenance costs, partially offset by the impact of production curtailment. Before the impact of specific items, average delivered cash costs decreased $105 per tonne in Q4, 2009 from the comparative period in 2008.

Operational Performance – Pulp

The pulp segment operating loss of $1.5 million in Q4, 2009 was an improvement of $20.2 million, from the operating loss of $21.7 million in Q4, 2008. Operating earnings in Q4, 2008 included an $11.1 million write-down to net realizable value of long fibre pulp finished goods and related fibre inventory.

Sales volumes decreased 55,100 tonnes in Q4, 2009 from the comparative period in 2008, primarily due to the closure of the Elk Falls sawdust pulp mill and white top linerboard operation and the curtailment of 33,900 tonnes of Crofton market pulp production. Average sales revenue decreased $47 per tonne, primarily due to lower average transaction prices as a result of deteriorated market conditions, and grade and product mix changes and the impact of the stronger Canadian dollar in Q4, 2009.

Average delivered cash costs decreased $282 per tonne in Q4, 2009 from the comparative period in 2008 due to lower distribution, furnish, labour, maintenance and restructuring costs as well as the absence of a write-down to finished goods and raw materials inventory in 2009, partially offset by higher steam and chemical costs. Before the impact of specific items, average delivered cash costs decreased $277 per tonne from the comparative period in 2008.

4 FINANCIAL CONDITION

The following table highlights the significant changes between the consolidated balance sheets as at December 31, 2009, and December 31, 2008:

(In millions of dollars)	2009	2008	Variance	Comments
Working capital	**$ 214.8**	$ 201.5	$ 13.3	Improvement reflects increase of $78.1 million in cash and cash equivalents and decrease of $96.1 million in payables due to lower trade payables and accrued payroll as a result of extensive production curtailment, and pay-down of restructuring liabilities as well as the absence of a mark-to-market liability position on revenue hedges at the end of 2009. These positive factors were largely offset by a decline in accounts receivable of $120.2 million as sales volumes and prices were significantly affected by the economic downturn in 2009, and a decline in inventory of $33.1 million as fibre and pulp finished goods inventory declined due to the closure of Elk Falls pulp mill and white top linerboard operations in 2008 and increased production curtailment in 2009.
Property, plant and equipment	**1,664.7**	1,854.4	(189.7)	Decrease mainly due to depreciation and amortization in excess of capital expenditures in 2009, foreign currency translation related to the Snowflake mill and an impairment charge of $17.4 million on excess capacity in Q4, 2009.
Other assets	**38.0**	65.0	(27.0)	Decrease mainly reflects decline in mark-to-market positions on debt hedges and amortization taken on deferred financing costs in 2009, partly offset by an increase in future income tax asset in 2009.
Total debt	**775.6**	969.9	(194.3)	Decrease reflects the stronger Canadian dollar at year-end and its impact on translation of the Company's U.S. dollar-denominated debt, as well as the purchase for cancellation of US$45.8 million in senior notes and pay-down on the revolving facility, offset by additional PREI debt of $19.3 million.
Employee future benefits	**294.6**	263.2	31.4	Increase reflects a lower discount rate, the impact of higher premiums for medical services plan coverage for retirees related to changes instituted by the B.C. government, and a number of early retirements resulting from restructuring initiatives, partially offset by reductions to future benefits as a result of restructuring initiatives and better than expected plan asset investment performance.
Other long-term obligations	**13.4**	13.3	0.1	Reflects an increase in environmental and remedial liabilities, offset by payments made for restructuring liabilities during 2009.
Future income taxes and deferred credits	**38.3**	67.9	(29.6)	Change consists of the following significant items: (i) a future tax recovery on current year loss; (ii) an $8.6 million take-back of previous releases of future income taxes related to previously announced reductions in future federal and provincial income tax rates; and (iii) a $2.7 million reduction in deferred credits.
Additional paid-in capital	**16.4**	14.6	1.8	Increase relates to the recording of stock-based compensation.

5 LIQUIDITY AND CAPITAL RESOURCES

SELECTED ANNUAL FINANCIAL INFORMATION

(In millions of dollars, except where otherwise stated)	**2009**	2008	2007
Cash flows provided (used) by operations before changes in non-cash working capital	**$ 6.0**	$ 113.2	$ (51.0)
Changes in non-cash working capital	**95.4**	(35.1)	48.3
Cash flows provided (used) by			
Operations	**101.4**	78.1	(2.7)
Investing activities	**(2.9)**	(205.3)	(83.7)
Financing activities	**(20.4)**	132.2	50.9
Capital spending	**11.5**	41.9	85.8
Depreciation and amortization	**146.6**	165.8	176.4
Impairment	**17.4**	151.0	–
Capital spending as % of depreciation and amortization	**8%**	25%	49%
Total debt to total capitalization [1,2]	**49%**	54%	47%
Net debt to net capitalization [3,4]	**46%**	54%	47%
Net debt to LTM EBITDA before specific items [3,5,6]	**5.7**	5.1	6.9
EBITDA before specific items to interest [5]	**1.8**	2.5	1.6

1 Total debt comprises long-term debt, including current portion.
2 Total capitalization comprises total debt and shareholders' equity attributable to the Company.
3 Net debt comprises total debt less cash on hand.
4 Net capitalization comprises total capitalization less cash on hand.
5 EBITDA before specific items is a non-GAAP measure. Refer to Section 10, "Non-GAAP measures" for further details.
6 LTM = last 12 months.

SELECTED QUARTERLY FINANCIAL INFORMATION

(In millions of dollars, except where otherwise stated)	2009 Total	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Total	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Cash flows provided (used) by operations before changes in non cash working capital	**$ 6.0**	**$ (2.7)**	**$ (7.9)**	**$ (15.2)**	**$ 31.8**	$ 113.2	$ 53.3	$ 50.8	$ 4.6	$ 4.5
Changes in non-cash working capital	**95.4**	**7.5**	**14.2**	**83.4**	**(9.7)**	(35.1)	4.3	(46.4)	26.3	(19.3)
Cash flows provided (used) by										
Operations	**101.4**	**4.8**	**6.3**	**68.2**	**22.1**	78.1	57.6	4.4	30.9	(14.8)
Investing activities	**(2.9)**	**(1.6)**	**(0.5)**	**0.9**	**(1.7)**	(205.3)	(5.9)	(12.6)	(176.4)	(10.4)
Financing activities	**(20.4)**	**(10.7)**	**43.2**	**(33.5)**	**(19.4)**	132.2	(52.9)	14.4	145.5	25.2
Capital spending	**11.5**	**4.7**	**1.0**	**2.2**	**3.6**	41.9	13.5	12.1	10.8	5.5
Depreciation and amortization	**146.6**	**37.8**	**35.9**	**35.8**	**37.1**	165.8	38.7	39.1	46.3	41.7
Impairment	**17.4**	**17.4**	**–**	**–**	**–**	151.0	14.5	–	136.5	–
Capital spending as % of depreciation and amortization	**8%**	**12%**	**3%**	**6%**	**10%**	25%	35%	31%	23%	13%
Total debt to total capitalization [1,2]	**49%**	**49%**	**48%**	**49%**	**52%**	54%	54%	52%	50%	50%
Net debt to net capitalization [3,4]	**46%**	**46%**	**45%**	**48%**	**52%**	54%	54%	52%	50%	50%
Net debt to LTM EBITDA before specific items [3,5,6]	**5.7**	**5.7**	**4.1**	**3.6**	**4.0**	5.1	5.1	6.0	7.0	7.7
EBITDA before specific items to interest [5]	**1.8**	**0.9**	**1.4**	**1.1**	**3.3**	2.5	3.4	3.4	1.6	1.6

1 Total debt comprises long-term debt, including current portion.
2 Total capitalization comprises total debt and shareholders' equity attributable to the Company.
3 Net debt comprises total debt less cash on hand.
4 Net capitalization comprises total capitalization less cash on hand.
5 EBITDA before specific items is a non-GAAP measure. Refer to Section 10, "Non-GAAP measures" for further details.
6 LTM = last 12 months.

The Company's principal cash requirements are for ongoing operating costs, working capital fluctuations, and capital expenditures as well as principal and interest payments on debt. Assuming no further deterioration in its business, the Company anticipates that future operating cash requirements can be funded through internally generated cash flow from operations and advances under its ABL Facility. However, in the event of further deterioration in the Company's business or the continuation of current market conditions for a prolonged period, these sources may not be sufficient to meet cash requirements for operations and additional funding sources would be required. Additional funding sources would also be required to repay the Company's outstanding debt as it matures. In normal market conditions, such additional funding would typically be obtained through the issuance of debt or equity securities or both. However, credit and capital markets have been volatile over the last several years and market access for non-investment grade companies, including the Company, was limited or non-existent for extensive periods in 2008 and 2009. Accordingly, there can be no assurance that the Company would be able to access debt or equity markets to the extent necessary to fund any shortfall arising from operations or to repay or refinance the Company's outstanding debt as it matures.

Additional details are provided in "Capital resources" and in "Debt" below and in Section 14, "Risks and uncertainties" in discussion on "The Company's substantial debt may impair its financial and operating flexibility".

OPERATING ACTIVITIES

Cash provided by operating activities was $101.4 million in 2009 compared to cash provided of $78.1 million in the previous year. The increase of $23.3 million was primarily related to a reduction in working capital requirements of $130.5 million in 2009 partially offset by lower EBITDA of $55.9 million in 2009.

INVESTING ACTIVITIES

Cash used in investing activities was $2.9 million in 2009 compared to $205.3 million in the previous year. The year-over-year change was largely driven by the acquisition of the Snowflake mill in 2008 for $172.2 million and a reduction of $30.4 million in capital spending in 2009.

Capital spending in 2009 was $11.5 million, compared to $41.9 million in 2008, the components of which are summarized in the following table.

(In millions of dollars)	2009	2008
Safety	$ 0.3	$ 2.5
Environment	0.4	0.3
Maintenance of business	7.1	24.1
Profit adding	3.7	15.0
Total	$ 11.5	$ 41.9

FINANCING ACTIVITIES

Cash used in financing activities in 2009 was $20.4 million, compared to cash provided of $132.2 million in the previous year. Cash provided in 2008 primarily related to the $121.1 million in net proceeds from the equity rights offering used to finance the Snowflake newsprint mill acquisition.

CAPITAL RESOURCES

The Company's capital resources include cash on hand and availability on the Company's ABL Facility, with total liquidity at period-end summarized in the following table.

	2009				2008			
(In millions of dollars)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Borrowing base	$ 147.9	$ 151.5	$ 159.4	$ 241.5	$ 263.3	$ 304.1	$ 319.0	$ 311.3
Letters of credit	(24.1)	(24.2)	(24.8)	(25.8)	(27.9)	(24.5)	(24.1)	(20.6)
Amount drawn, net	(14.5)	(25.0)	–	(38.8)	(60.1)	(113.5)	(93.5)	(69.4)
Minimum excess availability	(35.0)	(35.0)	(35.0)	(35.0)	(35.0)	(35.0)	–	–
Available to be drawn [1, 2]	74.3	67.3	99.6	141.9	140.3	131.1	201.4	221.3
Cash on hand	83.1	90.6	41.6	6.0	5.0	6.2	–	–
Total liquidity	$ 157.4	$ 157.9	$ 141.2	$ 147.9	$ 145.3	$ 137.3	$ 201.4	$ 221.3

1 Availability effective Q3, 2008 relates to the ABL Facility and availability for prior quarters relates to the Company's previous $350 million revolving operating facility.

2 The Company's ABL Facility is subject to certain financial covenants as disclosed in the Company's interim consolidated financial statements and in its annual consolidated financial statements for the year ended December 31, 2009, in note 14, "Long-term debt."

As of December 31, 2009, the Company had $157.4 million of liquidity available, comprising $83.1 million in cash and the availability of $74.3 million on its ABL Facility. The cash availability is after taking into account the financial covenant to maintain excess availability above $35.0 million. Compared to December 31, 2008, the Company's available liquidity increased by $12.1 million. The increase was primarily due to lower drawings on the ABL Facility and higher cash on hand in 2009, largely offset by a reduced borrowing base due to lower inventory and accounts receivable associated with higher production curtailment levels in 2009. Availability under the ABL Facility is determined by a borrowing base, calculated primarily on balances of eligible accounts receivable and inventory balances, less certain reserves. After February 13, 2010, this may include a reserve for vacation pay obligations, which as at December 31, 2009, amounted to $26.2 million. This reserve may only be imposed if excess availability, as defined in the ABL Facility, is below a threshold of $75 million. Excess availability under this definition was $84.3 million at December 31, 2009.

The agreements covering the ABL Facility and senior notes impose significant operating and financial restrictions on the Company that may limit the Company's conduct of its business and its ability to take advantage of new business opportunities. Refer to "Debt" below for additional details on these covenants and restrictions and on events of default.

The following table presents the aggregate amount of future cash outflows for contractual obligations as of December 31, 2009, excluding amounts due for interest on outstanding indebtedness.

Payments due by period (In millions of dollars)	2010	2011	2012	2013	2014	Thereafter
Total debt, excluding capital lease obligations	$ –	$ 370.7[1]	$ –	$ 14.5	$ 261.7	$ 113.8
Capital lease obligations	1.0	1.1	4.0	3.8	1.3	–
Operating leases	10.4	8.7	6.3	6.2	5.1	24.5
Other commitments	1.6	1.6	0.5	–	–	–
Total	$ 13.0	$ 382.1	$ 10.8	$ 24.5	$ 268.1	$ 138.3

1 On March 10, 2010, US$318.7 million of 2011 senior notes were exchanged for US$280.4 million of new 2016 senior notes, leaving US$35.5 million of 2011 senior notes outstanding. Refer to "Debt" section below for further details.

The Company may from time to time purchase its debt securities in the open market.

DEBT

The following table illustrates the changes in the Company's long-term debt for the year ended December 31, 2009:

Issue (In millions of dollars)	January 1, 2009	Net increase (decrease)	Foreign exchange	**December 31, 2009**
Recourse				
Senior notes, 8.625% due June 2011 (US$354.2 million; January 1, 2009 – $400.0 million)	$ 492.2	$ (59.6)	$ (61.0)	**$ 371.6**
Senior notes, 7.375% due March 2014 (US$250.0 million)	311.0	(1.1)	(44.5)	**265.4**
Revolving asset based loan facility of up to $330.0 million due August 2013 with interest based on Canadian Prime/BA rates or U.S. Base/LIBOR rates	60.1	(45.6)	–	**14.5**
Capital lease obligation	12.2	(1.0)	–	**11.2**
Non-recourse (PREI)			–	
First mortgage bonds, 6.387% due July 2009	74.9	(74.9)	–	**–**
First mortgage bonds, 6.447% due July 2016	–	94.1	–	**94.1**
Subordinated promissory notes	19.5	(0.7)	–	**18.8**
Total debt	$ 969.9	$ (88.8)	$ (105.5)	**$ 775.6**
Less: current portion	75.8	(74.8)	–	**1.0**
Total long-term debt	$ 894.1	$ (14.0)	$ (105.5)	**$ 774.6**

Total debt outstanding as at December 31, 2009 was $775.6 million. The Company's net-debt to net-capitalization ratio as at December 31, 2009 was 46% or 8% lower than the ratio as at December 31, 2008. The decrease was primarily due to the year-over-year change in the U.S. dollar-to-Canadian dollar exchange rate and the impact of the purchase and cancellation of US$45.8 million of the Company's 8.625% senior notes in Q1, 2009, offset in part by the additional debt proceeds raised on the refinancing of PREI's $75.0 million of 6.387% first mortgage bonds through the issuance of $95.0 million of 6.447% first mortgage bonds in Q3.

The indentures and agreements governing the Company's senior notes contain customary restrictive covenants including restrictions on incurring additional indebtedness, certain payments including dividends and investments in other persons, the creation of liens, sale and leaseback transactions, certain amalgamations, mergers, consolidations and the use of proceeds arising from certain sales of assets and certain transactions with affiliates. For additional details on covenant restrictions, including permitted debt and restricted payments baskets, refer to the consolidated financial statements, note 14, "Long-term debt".

The ABL Facility contains a number of covenants that, among other things, place restrictions on matters customarily restricted in such facilities, including indebtedness which encompasses guarantee obligations, liens, fundamental changes, investments, derivative transactions, sales of assets, changes in fiscal periods, environmental activity, negative pledges, subsidiary distributions and changes in lines of business. The ABL Facility contains customary events of default, including failure to pay principal or interest when due, failure to comply with or observe key covenants, failure to refinance the 2011 notes on or before March 15, 2011, adverse judgements, seizures of property, material adverse change, auditors' "going concern" qualification, and change in control. The covenants relating to the Company's ABL Facility are determined using financial statement values, where applicable, based on Canadian GAAP.

At December 31, 2009, the Company was in compliance with the covenants under both its ABL Facility and senior notes.

A significant or prolonged downturn in general business and economic conditions may affect the Company's ability to comply with debt covenants in the future and could result in the Company being in default under the ABL Facility or senior notes. If a default were to occur with respect to the senior notes or the ABL Facility, the Company may not be able to cure the default, obtain a waiver of the default, or enter into an appropriate amendment to the senior notes or ABL Facility agreements. This may allow the counterparties to these agreements to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. In this event, the Company may not have or be able to obtain sufficient funds to make accelerated debt payments if so required. No assurance can be made that the Company would be able to effectively cure a breach or default or obtain debt or equity financing, or sell assets as an alternative means of responding to a breach or default.

On November 23, 2009, the Company offered to exchange its outstanding 8.625% senior notes ("Old Notes") due June 15, 2011 for new 10.0% senior secured notes ("New Notes") due December 15, 2016, and shares of common stock of the Company. In conjunction with the exchange offer, the Company also solicited the consent of the note holders to amend the terms of the Old Notes by, among other things, eliminating substantially all of the negative covenants contained in the respective note indenture. On January 25, 2010, the Company announced that it had amended the terms of the exchange offer. The amendments included the offer to pay interest at 11.0% on the New Notes and the removal of the equity component. On February 16, 2010, the Company announced that an agreement in principal had been reached with the lenders under the ABL Facility in conjunction with counsel for the Ad Hoc Committee of holders of the Old Notes with respect to inter-creditor and other related agreements arising from the proposed exchange, and the Company amended the terms of the exchange offer accordingly. On March 1, 2010, the Company announced that US$318.7 million in principal amount of the Old Notes, or 89.96% of the outstanding Old Notes, had been tendered for exchange as of February 25, 2010, and that in light of this, the Company had reduced the minimum tender condition to US$318.7 million in principal amount of the Old Notes. This effectively waived the minimum tender condition, and as a result, the exchange offer was extended to March 5, 2010. On March 10, 2010, pursuant to an exchange offer by the Company, senior unsecured notes of US$318.7 million at 8.625%, due June 2011, were exchanged for new senior secured notes of US$280.4 million at 11.0%, due December 2016, leaving US$35.5 million of senior unsecured notes due in June 2011 outstanding.

In conjunction with the launch of the bond exchange offer in November 2009, the Company announced that it intended to conduct a rights offering to raise proceeds of up to $100 million upon completion of the bond exchange. On January 25, 2010 the Company's Board of directors accepted the resignation of its President and Chief Executive Officer, Richard Garneau, who will be leaving the Company at the end of May, 2010. A search for a successor is underway and the Board of directors has determined that completing the succession process is desirable prior to initiating the proposed rights offering. As a result of this event and current market and industry conditions, the Company will not proceed with the proposed rights offering as originally scheduled.

Credit Rating

The following table highlights the Company's credit ratings and outlook with Moody Investors Service ("Moodys"), Standard & Poor's ("S&P"), and Dominion Bond Rating Service ("DBRS") as at December 31:

December 31,	**2009**	2008	2007
Moodys Investors Service			
Outlook	**Negative**	Negative	Negative
Corporate family rating	**B3**	B1	B1
Senior unsecured debt	**Caa3**	B2	B2
Senior secured credit facility	–	–	Ba1
Speculative grade liquidity	**SGL-3**	SGL-3	n/a
Standard & Poor's			
Outlook	**Credit Watch – Negative**	Negative	Negative
Long-term issuer credit	**CC**	B	B
Senior unsecured debt	**C**	B	B
Senior secured debt	–	–	BB-
Dominion Bond Rating Service			
Outlook	**Under Review – Negative**	Negative	Negative
Senior unsecured debt	**CCC**	BB	BB

Following the Company's announcement in June 2009 that it was reviewing refinancing alternatives to address the maturity of its unsecured notes, and in light of the prevailing weak market conditions, both S&P and Moodys downgraded the Company's credit ratings. S&P lowered its credit ratings for the Company, including its long-term corporate credit rating to CCC+ from B. S&P also placed the ratings on CreditWatch with negative implications. Moodys downgraded the Company's long-term corporate credit to B3 from B1.

Following the Company's announcement in November 2009 that it had commenced a private offer to exchange a portion of its senior notes, S&P, Moodys and DBRS further downgraded the Company's credit ratings, as they viewed that the offer would constitute a distressed exchange. S&P lowered the long-term corporate rating for the Company to CC from CCC+, and lowered the issue-level rating on the senior notes to C from CCC. Moodys lowered the Probability of Default rating to Caa3 from B3 and affirmed the Company's Corporate Family Rating at B3. Moodys also downgraded the senior notes subject to the exchange offer to Caa3 from Caa1 and placed the rating of the Company's senior notes due 2014 under review for possible downgrade. DBRS downgraded the Issuer Rating of the Company to B from BB and the Senior Debt rating to CCC from BB. DBRS also placed all ratings Under Review with Negative Implications. DBRS views the exchange as disadvantageous to the note holders and cites soft industry conditions as the basis for the downgrades.

The downgrades to the Company's credit ratings have a negative influence on the Company's ability to obtain future financing and have an adverse impact on the Company's cost of capital.

FINANCIAL INSTRUMENTS

Financial instruments of the Company consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and long-term debt. Financial instruments of the Company also include derivatives which the Company uses to reduce its exposure to currency and price risk associated with its revenues, energy costs and long-term debt. The Company is exposed to risk from its financial instruments, specifically credit risk, market risk, including currency, price and interest risk, and liquidity risk. The Board of directors and the Audit Committee have approved a policy to manage the risks associated with the use of derivatives and setting objectives for and limits on their use. Management identifies and analyzes the risks, establishes appropriate controls, creates responsibilities and limits, and provides for regular monitoring and reporting. Further details on specific risks are available in note 26, "Financial Instruments" of the Company's consolidated financial statements for the year ended December 31, 2009.

In accordance with its financial risk-management program, the Company manages its exposure to risks through the use of financial instruments with counterparties that are of strong credit quality, normally major financial institutions. The Company does not enter into financial instruments for speculative purposes.

Revenue Risk Management Instruments

The Company uses foreign currency options and forward contracts to partially hedge trade receivables and anticipated future sales denominated in foreign currencies. At December 31, 2009, the Company had foreign currency options and forward contracts with a notional principal of US$366 million with major financial institutions. These instruments are reported in the consolidated balance sheet at their fair value, which was $19.0 million at the end of 2009 based on year-end exchange rates. Changes in the fair value of derivatives that qualify and are designated as cash-flow hedges are deferred and recorded as a component of "Accumulated other comprehensive income" ("AOCI") until the underlying transaction is recorded in earnings. When the hedged item affects earnings, the gain or loss is reclassified to "Sales" from "AOCI". Any ineffective portion of a hedging derivative's change in fair value and the portion that is excluded from the assessment of hedge effectiveness are recognized immediately in "Sales". At December 31, 2009, instruments having a notional principal of US$284 million were designated as hedging instruments.

Cost Risk Management Instruments

The Company's policy allows for hedges of old newsprint to be placed on anticipated purchases. As well, hedges are placed on anticipated purchases at 0% to 70% of the net exposure for oil and natural gas. These contracts are not designated as hedging instruments for accounting purposes and are reported at their fair value. Settlements and changes in fair value are recognized in "Cost of sales, excluding depreciation and amortization". At December 31, 2009, agreements in place for natural gas usage were not material and the Company had no oil contracts or options outstanding at December 31, 2009.

6 RELATED PARTY TRANSACTIONS

Effective October 23, 2006, Third Avenue together with its subsidiaries and affiliates became a significant shareholder in the Company. In 2008, Third Avenue acquired an additional 59,856,422 common shares in connection with the rights offering related to the acquisition of Snowflake. Third Avenue acquired a further 1,000,000 common shares on the open market in 2009.

DIRECTORS AND EMPLOYEES

The Company undertakes certain transactions with companies affiliated with its directors. These transactions are in the normal course of business and are on the same terms as those accorded to third parties. During 2009, the Company paid aggregate fees of approximately $7.1 million to companies affiliated with directors of the Company, primarily for obligations under a building lease, for services related to trucking chips and sawdust, and other consulting services.

7 CONTINGENT LIABILITIES

Severances

Due to on-going weak market conditions, the Company has continued to curtail certain operations at its Elk Falls and Crofton mills. As at December 31, 2009, these curtailments have affected approximately 300 hourly employees at the Elk Falls mill and approximately 70 hourly employees at the Crofton mill through protracted lay-offs. The labour agreement between the Company and union locals provides that if an hourly employee has been on lay-off for 12 months (lay-off is defined as having the opportunity to work less than 900 hours during the 12 month period), and, at the end of that 12 month period, the Company has no plan to re-employ the employee during the three months following, the affected employee has an option of requesting a severance payment. Employees requesting a severance payment would lose their rights of recall under the agreement. The labour agreement between the Company and PPWC Local 2 at Crofton, has similar provisions under which severance applies, although the 900 hour threshold does not apply. The Company estimated that should the conditions giving rise to severance at Elk Falls and Crofton be met, the potential severance payment would be approximately $19 million. The Company did not record a liability for this contingency as of December 31, 2009 as it had not determined what the future of these operations would be and could not know how many employees would request their severance, as opposed to retaining their recall rights, should they become eligible for severance in the future. Therefore, the likelihood, timing, and extent of any potential liability were not determinable. Subsequent to December 31, 2009, and as at March 10, 2010, 190 hourly employees at Elk Falls had requested severance payments, resulting in an aggregate severance charge of $11.5 million. The Company may not be able to restart the Elk Falls mill if all of the remaining hourly employees of this mill decide to forfeit their recall rights and request severances, in which case, the Company would consider permanently closing this mill.

In addition to the hourly employees on lay-off due to production curtailments, as at December 31, 2009, there were approximately 100 hourly employees who were on lay-off at the Company's Elk Falls, Port Alberni, and Powell River mills due to restructuring and other initiatives. These employees are entitled to rights of recall in the range of 12 to 42 months from the last day worked, but at any time may forfeit their rights of recall in exchange for severance payments. If all affected employees exercise their severance rights at some point and thereby forfeit their recall rights, the Company estimates that the total severance payment would be approximately $3.8 million. The Company did not record a liability for this contingency as of December 31, 2009 as the likelihood, timing, and extent of any potential liability were not determinable. Subsequent to December 31, 2009, and as at March 10, 2010, 41 hourly employees had exercised their severance rights, resulting in an aggregate severance charge of $1.5 million.

Claim for Return of Payments Made to Quebecor World (USA)

In January 2010, Quebecor World (USA)'s litigation trustee ("Quebecor") filed a claim against the Company for alleged preferential transfers of approximately US$18.8 million. The claim seeks the return of payments made by Quebecor to the Company in the ordinary course of their trade relationship in the 90 days prior to Quebecor's Chapter 11 filing in December 2007. The Company is one of 1700 vendors of Quebecor who received payments totalling US$390 million during the preference period in which the litigation trustee has sought recovery. The claim is made pursuant to the U.S. Bankruptcy Code which allows recovery of certain transfers made by the bankrupt debtor within the 90 days prior to the bankruptcy filing, subject to a vendor's defences.

The Company intends to defend the claim and has been advised that it has a number of defences available that are expected to eliminate or significantly reduce its financial exposure. Accordingly, the Company does not expect to incur any significant liability in connection with the Quebecor claim.

Application to Labour Relations Board for Certain Post-retirement Benefits

The CEP Locals 1, 76, 592 and 686 (the "Locals"), representing hourly employees at the Company's Powell River and Port Alberni mills, have applied to the Labour Relations Board of B.C. for a declaration that the Company is responsible for certain post-retirement medical and extended health benefits for some retired employees who were represented by the Locals and who retired from MacMillan Bloedel Limited ("M.B."), now doing business as Weyerhaeuser Company Ltd. ("Weyerhaeuser"). Pacifica Papers Inc. ("Pacifica") acquired the Powell River and Port Alberni mills from M.B. in 1998, and it was agreed as part of that transaction that M.B. would remain responsible for any benefits for eligible employees who retired prior to the acquisition by Pacifica of the mills. The Company subsequently amalgamated with Pacifica in 2001. The Locals claim that the contractual relationships between the Company, Pacifica and M.B. do not absolve the Company (as successor to Pacifica) from any obligations which may exist in respect of certain post-retirement benefits and that the successorship provisions of the Labour Relations Code imposed any such possible obligations on Pacifica at the time Pacifica acquired the mills. The Company does not agree with the Locals' position and will contest the Labour Board application. If the Locals' application is successful, the Company could become responsible for the post-retirement benefits of these retirees in addition to those for which the Company already accounts. These proceedings are at an early stage. The extent of the Company's liability, if any, cannot be determined at this time although the Company estimates that it would incur costs of between $2 million and $4 million annually to provide these additional benefits. In that event, the Company will seek indemnification from Weyerhaeuser.

ICP Arbitration Settlement

On November 20, 2009, the arbitration proceeding relating to a 20-year energy services agreement with ICP was settled. The arbitration was a result of the Company's declaration of force majeure under the energy services agreement due to the permanent closure of the Elk Falls pulp mill in November 2008 as a result of the unavailability of sawdust fibre. The settlement terminated the energy services agreement, including the contingent liability for energy not purchased. Subject to subdivision approval, the Company has agreed to transfer to ICP the land it currently leases and upon which its energy facility is located. The Company has also granted certain easements and access rights to ICP to facilitate the independent operation of the energy facility and eliminate the need for the Company to provide certain services to ICP. The cost of the settlement to the Company was $1.4 million, representing the fair value of the property to be transferred or leased at a nominal amount to ICP as well as the costs associated with the provision of services to ICP for 18 months.

8 OFF-BALANCE SHEET ARRANGEMENTS

GUARANTEES

Business Dispositions

The Company sold a portion of its operations in June 2001 and provided with the sale a 10-year environmental indemnity with a maximum liability to the Company of $12.5 million. This liability has been reduced by expenditures related to certain decommissioning projects. The Company provided a tax indemnity, which continues while the relevant tax years of the indemnified parties remain open to audit.

Loans

The Company entered into a building lease agreement in 2001 under which it would continue to make the prescribed lease payments directly to the financial institution holding the mortgage on the building in the event the lessor were no longer able to meet its contractual obligations. At December 31, 2009, the value of the mortgage was $7.9 million. The agreement does not increase the Company's liability beyond the obligations for the building lease.

Recycling Plant Acquisition

In connection with the acquisition of the Company's paper recycling operation in December 2003, the Company provided indemnities with respect to representations and warranties related to general corporate matters and to the shares that were issued to the vendors. Liability under these indemnities expired in November 2008, with the exception of the indemnity related to title to the shares, which does not expire. The Company does not expect any significant claims related to these indemnities. The Company also provided indemnities with respect to general environmental matters under its lease of the land and buildings. The Company has agreed to indemnify the landlord for all costs, claims and damages related to any release by the Company of any hazardous substances on the property or the breach by the Company of its environmental covenants under the lease or any environmental laws. This indemnity is indefinite and survives after the lease is terminated. The Company is not liable for pre-existing environmental conditions.

9 SUMMARY OF QUARTERLY RESULTS

The following table highlights selected financial information for the eight consecutive quarters ended December 31, 2009.

(In millions of dollars, except per share amounts)	2009				2008			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Sales	**$ 294.3**	**$ 263.4**	**$ 291.5**	**$ 352.5**	$ 492.2	$ 504.8	$ 452.9	$ 399.5
EBITDA [1]	**13.4**	**22.9**	**6.1**	**61.1**	64.7	53.1	29.5	12.1
Net earnings (loss) attributable to the Company	**(35.8)**	**13.2**	**(1.9)**	**20.1**	(48.5)	(10.9)	(121.9)	(38.5)
Net earnings (loss) per share attributable to the Company's common shareholders – basic and diluted	**$ (0.09)**	**$ 0.03**	**$ (0.01)**	**$ 0.06**	$ (0.13)	$ (0.03)	$ (0.33)	$ (0.18)

1 EBITDA is a non-GAAP measure. Refer to Section 10 "Non-GAAP measures" for further details.

In Q1, 2009, the net earnings attributable to the Company increased $68.6 million, or $0.19 per common share, from Q4, 2008, due largely to improved after-tax operating earnings of $8.9 million, an after-tax gain of $26.1 million on the cancellation of long-term debt, and an after-tax foreign exchange loss of $10.7 million on the translation of long-term debt in Q1, compared to an after-tax loss of $45.2 million in Q4, 2008.

In Q2, 2009, net loss attributable to the Company increased $22.0 million, or $0.07 per common share, from the preceding quarter. The decrease was primarily related to a reduction in after-tax operating earnings of $37.6 million and the absence of an after-tax gain of $26.1 million on the cancellation of long-term debt, offset by an after-tax exchange gain of $32.2 million on the translation of long-term debt in Q2, compared to an after-tax foreign exchange loss of $10.7 million in Q1.

In Q3, 2009, net earnings attributable to the Company increased $15.1 million, or $0.04 per common share from Q2, due largely to improved after-tax operating earnings of $11.7 million.

In Q4, 2009, net loss attributable to the Company increased $49.0 million, or $0.12 per common share, from Q3. The increase was due primarily to a reduction in after-tax operating earnings of $20.2 million, an after-tax asset-impairment charge of $13.1 million, and an after-tax foreign exchange gain of $9.5 million on translation of long-term debt, compared to an after-tax gain of $33.0 million in Q3.

The following table reconciles the average spot exchange rate to the Company's effective rate for the eight consecutive quarters ended December 31, 2009:

US$/CDN$ FOREIGN EXCHANGE

	2009				2008			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Average spot rate	**0.947**	**0.911**	**0.855**	**0.803**	0.825	0.961	0.990	0.996
Revaluation of U.S. dollar receivables	**0.009**	**0.039**	**0.046**	**(0.014)**	(0.078)	(0.016)	0.005	(0.022)
(Favourable) unfavourable impact of hedging [1]	**(0.013)**	**(0.035)**	**(0.021)**	**0.045**	0.112	0.017	(0.010)	(0.003)
Other	**(0.006)**	**0.006**	**0.013**	**0.022**	0.009	0.009	0.004	(0.004)
Average effective rate	**0.937**	**0.921**	**0.893**	**0.856**	0.868	0.971	0.989	0.967

1 Favourable (unfavourable) impact of hedging (in millions of dollars) $ 2.7 $ 6.8 $ 5.0 $ (15.6) $ (37.8) $ (7.6) $ 2.7 $ 1.0

10 NON-GAAP MEASURES

EBITDA, defined as earnings before interest, taxes, depreciation and amortization, impairment and before other non-operating income and expenses equates to operating earnings (loss) plus depreciation and amortization and impairment. This measure as calculated by the Company might not be comparable to similarly titled measures reported by other entities as U.S. GAAP does not define a method of calculating EBITDA. The Company focuses on EBITDA, as it believes this measure enables comparison of its results between periods without regard to debt service, income taxes and capital expenditure requirements. As such, the Company believes it would be useful for investors and other users to be aware of this measure so that they can better assess the Company's operating performance. EBITDA should not be considered by an investor as an alternative to net earnings, an indicator of the financial performance of the Company, or an alternative to cash flows as a measure of liquidity.

The Company incurred some specific items in 2009 and 2008 that adversely or positively affected its average delivered cash costs per tonne, EBITDA, operating earnings (loss), and net earnings (loss), making it difficult to compare results from period to period. The Company believes it is useful for readers to be aware of these specific items and to have an indication of performance and comparative trends excluding them. Specific items include foreign exchange gain or loss on long-term debt, gain on cancellation of long-term debt, asset impairments, restructuring costs, financing-related fees, income tax adjustments, and other significant items of an unusual or non-recurring nature. The Company believes this is useful supplemental information; however, its measures excluding specific items have no standardized meaning under U.S. GAAP and might not be comparable to similarly titled measures reported by other entities. Readers are cautioned that average delivered cash costs per tonne before specific items, EBITDA before specific items, EBITDA margin 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 should not be confused with or used as an alternative to measures prescribed by U.S. GAAP.

The Company has reported free cash flow because management believes this information can be used by investors and other users to better assess its operating performance. Free cash flow excludes working capital changes and certain other sources and uses of cash, which are disclosed in the consolidated statements of cash flows. As U.S. GAAP does not define a method of calculating free cash flow, the measure as calculated by the Company might not be comparable to similarly titled measures reported by other entities and should not be considered an alternative to the consolidated statements of cash flows. Free cash flow is calculated as EBITDA after capital expenditures, interest and income 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.

The tables below provide a reconciliation of net earnings (loss) attributable to the Company to EBITDA and EBITDA before specific items, net earnings (loss) attributable to the Company to net earnings (loss) attributable to the Company before specific items, and a reconciliation of cash provided by operating activities less cash used by investing activities to free cash flow, and management's calculation of free cash flow.

RECONCILIATION OF NET EARNINGS (LOSS) ATTRIBUTABLE TO THE COMPANY TO EBITDA AND EBITDA BEFORE SPECIFIC ITEMS BY YEAR

(In millions of dollars)	**2009**	2008	2007
Net earnings (loss) attributable to the Company as reported	**$ (4.4)**	$ (219.8)	$ (36.5)
Net earnings (loss) attributable to non-controlling interest	**(1.2)**	0.8	0.1
Net earnings (loss)	**(5.6)**	(219.0)	(36.4)
Depreciation and amortization	**146.6**	165.8	176.4
Impairment	**17.4**	151.0	–
(Gain) loss on cancellation of long-term debt	**(30.7)**	–	–
Foreign exchange (gain) loss on long-term debt	**(75.3)**	82.2	(103.9)
Other (income) expense, net	**9.4**	(4.9)	15.3
Interest expense, net	**69.3**	75.0	70.7
Income tax recovery	**(27.6)**	(90.7)	(95.1)
EBITDA	**$ 103.5**	$ 159.4	$ 27.0
Specific items:			
Restructuring costs	**17.9**	30.1	55.3
Change-of-control costs	**–**	–	9.4
Impact of USW strike	**–**	–	25.0
Total specific items	**17.9**	30.1	89.7
EBITDA before specific items	**$ 121.4**	$ 189.5	$ 116.7

RECONCILIATION OF NET EARNINGS (LOSS) ATTRIBUTABLE TO THE COMPANY TO EBITDA AND EBITDA BEFORE SPECIFIC ITEMS BY QUARTER

(In millions of dollars)	2009 Total	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Total	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Net earnings (loss) attributable to the Company as reported	$ (4.4)	$ (35.8)	$ 13.2	$ (1.9)	$ 20.1	$(219.8)	$ (48.5)	$ (10.9)	$(121.9)	$ (38.5)
Net earnings (loss) attributable to non-controlling interest	(1.2)	0.7	(0.9)	(1.1)	0.1	0.8	0.6	(0.1)	(0.2)	0.5
Net earnings (loss)	(5.6)	(35.1)	12.3	(3.0)	20.2	(219.0)	(47.9)	(11.0)	(122.1)	(38.0)
Depreciation and amortization	146.6	37.8	35.9	35.8	37.1	165.8	38.7	39.1	46.3	41.7
Impairment	17.4	17.4	–	–	–	151.0	14.5	–	136.5	–
(Gain) loss on cancellation of long-term debt	(30.7)	–	–	–	(30.7)	–	–	–	–	–
Foreign exchange (gain) loss on long-term debt	(75.3)	(11.1)	(38.9)	(37.9)	12.6	82.2	53.5	10.8	1.2	16.7
Other (income) expense, net	9.4	3.6	2.7	3.8	(0.7)	(4.9)	–	(0.2)	(4.5)	(0.2)
Interest expense, net	69.3	16.6	16.5	16.3	19.9	75.0	19.6	19.2	19.4	16.8
Income tax expense (recovery)	(27.6)	(15.8)	(5.6)	(8.9)	2.7	(90.7)	(13.7)	(4.8)	(47.3)	(24.9)
EBITDA	103.5	13.4	22.9	6.1	61.1	159.4	64.7	53.1	29.5	12.1
Specific items:										
Restructuring costs										
Specialty printing papers	$ 11.7	$ 0.4	$ (0.5)	$ 9.8	$ 2.0	$ 10.6	$ (1.0)	$ 0.1	$ 0.5	$ 11.0
Newsprint	3.0	0.2	0.2	1.9	0.7	4.1	(0.1)	0.1	0.5	3.6
Pulp	3.2	0.8	0.3	0.6	1.5	15.4	2.3	12.9	0.2	–
Total specific items	17.9	1.4	–	12.3	4.2	30.1	1.2	13.1	1.2	14.6
EBITDA before specific items	$ 121.4	$ 14.8	$ 22.9	$ 18.4	$ 65.3	$ 189.5	$ 65.9	$ 66.2	$ 30.7	$ 26.7

RECONCILIATION OF NET EARNINGS (LOSS) ATTRIBUTABLE TO THE COMPANY TO NET EARNINGS (LOSS) ATTRIBUTABLE TO THE COMPANY BEFORE SPECIFIC ITEMS BY YEAR

(In millions of dollars and after-taxes, except where otherwise stated)	2009	2008	2007
Net earnings (loss) attributable to the Company as reported	$ (4.4)	$ (219.8)	$ (36.5)
Specific items:			
(Gain) loss on cancellation of long-term debt	(26.1)	–	–
Foreign exchange loss (gain) on long-term debt	(64.0)	69.4	(86.2)
Impairment and loss on disposal	13.1	111.0	4.9
Restructuring and change-of-control costs	12.5	20.8	42.7
Fees related to bond exchange offer	1.5	–	–
USW strike impact	–	–	16.5
Financing related fees	–	–	0.8
Termination fee on closure of corrugating machine	–	(1.2)	–
Income tax adjustments	8.6	(5.8)	(31.5)
Net earnings (loss) attributable to the Company before specific items	(58.8)	(25.6)	(89.3)
Net earnings (loss) per share attributable to the Company's common shareholders in dollars:			
As reported	$ (0.01)	$ (0.65)	$ (0.17)
Before specific items	$ (0.15)	$ (0.08)	$ (0.42)

RECONCILIATION OF NET EARNINGS (LOSS) ATTRIBUTABLE TO THE COMPANY TO NET EARNINGS (LOSS) ATTRIBUTABLE TO THE COMPANY BEFORE SPECIFIC ITEMS BY QUARTER

(In millions of dollars and after-taxes, except where otherwise stated)	2009 Total	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Total	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Net earnings (loss) attributable to the Company as reported	**$ (4.4)**	**$ (35.8)**	**$ 13.2**	**$ (1.9)**	**$ 20.1**	$(219.8)	$ (48.5)	$ (10.9)	$(121.9)	$ (38.5)
Specific items:										
(Gain) loss on cancellation of long-term debt	**(26.1)**	**–**	**–**	**–**	**(26.1)**	–	–	–	–	–
Foreign exchange loss (gain) on long-term debt	**(64.0)**	**(9.5)**	**(33.0)**	**(32.2)**	**10.7**	69.4	45.2	9.1	1.0	14.1
Impairment and loss on disposal	**13.1**	**13.1**	**–**	**–**	**–**	111.0	10.0	–	101.0	–
Restructuring costs	**12.5**	**1.0**	**–**	**8.5**	**3.0**	20.8	0.9	9.0	0.8	10.1
Fees related to bond exchange offer	**1.5**	**1.5**	**–**	**–**	**–**	–	–	–	–	–
Termination fee on closure of corrugating machine	**–**	**–**	**–**	**–**	**–**	(1.2)	–	–	(1.2)	–
Income tax adjustments	**8.6**	**7.9**	**–**	**–**	**0.7**	(5.8)	1.7	–	–	(7.5)
Net earnings (loss) attributable to the Company before specific items	**(58.8)**	**(21.8)**	**(19.8)**	**(25.6)**	**8.4**	(25.6)	9.3	7.2	(20.3)	(21.8)
Net earnings (loss) per share attributable to the Company's common shareholders in dollars:										
As reported	**$ (0.01)**	**$ (0.09)**	**$ 0.03**	**$ (0.01)**	**$ 0.06**	$ (0.65)	$ (0.13)	$ (0.03)	$ (0.33)	$ (0.18)
Before specific items	**$ (0.15)**	**$ (0.06)**	**$ (0.05)**	**$ (0.06)**	**$ 0.02**	$ (0.08)	$ 0.02	$ 0.02	$ (0.06)	$ (0.10)

RECONCILIATION OF CASH PROVIDED BY OPERATING ACTIVITIES LESS CASH USED BY INVESTING ACTIVITIES TO FREE CASH FLOW BY YEAR

(In millions of dollars)	2009	2008	2007
Cash provided (used) by operating activities	**$ 101.4**	$ 78.1	$ (2.7)
Cash used by investing activities	**(2.9)**	(205.3)	(83.7)
Proceeds from the sale of property, plant and equipment and other assets	**(4.5)**	(2.2)	(6.5)
Snowflake acquisition	**–**	172.2	–
Other investing activities	**(4.1)**	(6.6)	4.4
Non-cash working capital changes except changes in taxes and interest	**(96.5)**	37.8	(49.7)
Other	**35.9**	(28.8)	17.8
Free cash flow	**$ 29.3**	$ 45.2	$ (120.4)

RECONCILIATION OF CASH PROVIDED BY OPERATING ACTIVITIES LESS CASH USED BY INVESTING ACTIVITIES TO FREE CASH FLOW BY QUARTER

(In millions of dollars)	2009 Total	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Total	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Cash provided (used) by operating activities	**$ 101.4**	**$ 4.8**	**$ 6.3**	**$ 68.2**	**$ 22.1**	$ 78.1	$ 57.6	$ 4.4	$ 30.9	$ (14.8)
Cash provided (used) by investing activities	**(2.9)**	**(1.6)**	**(0.5)**	**0.9**	**(1.7)**	(205.3)	(5.9)	(12.6)	(176.4)	(10.4)
Proceeds from the sale of property, plant and equipment and other assets	**(4.5)**	**(0.9)**	**(0.4)**	**(0.5)**	**(2.7)**	(2.2)	0.1	(2.3)	0.1	(0.1)
Snowflake acquisition	**–**	**–**	**–**	**–**	**–**	172.2	–	0.3	171.9	–
Other investing activities	**(4.1)**	**(2.2)**	**(0.1)**	**(2.6)**	**0.8**	(6.6)	(7.7)	2.5	(6.4)	5.0
Non-cash working capital changes except change in taxes and interest	**(96.5)**	**(9.4)**	**(12.1)**	**(87.8)**	**12.8**	37.8	(6.6)	51.3	(29.7)	22.8
Other	**35.9**	**2.8**	**13.1**	**15.4**	**4.6**	(28.8)	(11.3)	(21.0)	10.8	(7.3)
Free cash flow	**$ 29.3**	**$ (6.5)**	**$ 6.3**	**$ (6.4)**	**$ 35.9**	$ 45.2	$ 26.2	$ 22.6	$ 1.2	$ (4.8)

MANAGEMENT'S CALCULATION OF FREE CASH FLOW BY YEAR

(In millions of dollars)	2009	2008	2007
EBITDA	**$ 103.5**	$ 159.4	$ 27.0
Interest paid, net	**(66.5)**	(74.4)	(67.8)
Capital expenditures	**(11.5)**	(41.9)	(85.8)
Income taxes paid	**(0.5)**	(0.8)	(0.5)
Employee future benefits, expense over (under) cash contributions [1]	**4.3**	2.9	6.7
Free cash flow	**$ 29.3**	$ 45.2	$ (120.4)

1 Free cash flow is adjusted to reflect the cash impact of employee future benefits rather than the accounting expense which is included in EBITDA.

MANAGEMENT'S CALCULATION OF FREE CASH FLOW BY QUARTER

(In millions of dollars)	2009 Total	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Total	2008 Q4	2008 Q3	2008 Q2	2008 Q1
EBITDA	**$ 103.5**	**$ 13.4**	**$ 22.9**	**$ 6.1**	**$ 61.1**	$ 159.4	$ 64.7	$ 53.1	$ 29.5	$ 12.1
Interest paid, net	**(66.5)**	**(15.9)**	**(15.9)**	**(15.5)**	**(19.2)**	(74.4)	(21.1)	(18.8)	(17.1)	(17.4)
Capital expenditures	**(11.5)**	**(4.7)**	**(1.0)**	**(2.2)**	**(3.6)**	(41.9)	(13.5)	(12.1)	(10.8)	(5.5)
Income taxes received (paid)	**(0.5)**	**(0.1)**	**0.3**	**(0.3)**	**(0.4)**	(0.8)	(0.7)	0.4	0.3	(0.8)
Employee future benefits, expense over (under) cash contributions [1]	**4.3**	**0.8**	**–**	**5.5**	**(2.0)**	2.9	(3.2)	–	(0.7)	6.8
Free cash flow	**$ 29.3**	**$ (6.5)**	**$ 6.3**	**$ (6.4)**	**$ 35.9**	$ 45.2	$ 26.2	$ 22.6	$ 1.2	$ (4.8)

1 Free cash flow is adjusted to reflect the cash impact of employee future benefits rather than the accounting expense which is included in EBITDA.

11 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires companies to establish accounting policies and to make estimates that affect both the amount and timing of recording of assets, liabilities, revenues and expenses. Some of these estimates require judgements about matters that are inherently uncertain.

Note 2, "Summary of Significant Accounting Policies" to the December 31, 2009 consolidated financial statements includes a summary of the significant accounting policies used in their preparation. While all of the significant accounting policies are important to the consolidated financial statements, some of these policies may be viewed as involving a high degree of judgement. On an ongoing basis using currently available information, management reviews its estimates, including those related to environmental and legal liabilities, impairment of long-lived assets, pension and post-retirement benefits, provision for bad and doubtful accounts, fair value measurement, and income taxes. Actual results could differ from these estimates.

The following accounting policies require management's most difficult, subjective and complex judgements, and are subject to measurement uncertainty.

ENVIRONMENTAL AND LEGAL LIABILITIES

Environmental and legal liabilities are recorded when it is considered probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Liabilities for environmental matters require evaluations of applicable environmental regulations and estimates of remediation alternatives and the costs thereof. Provisions for liabilities relating to legal actions and claims require judgements about projected outcomes and the range of loss, based on such factors as historical experience and recommendations of legal counsel.

As at December 31, 2009, the Company had a provision of $7.6 million for environmental, remedial and other obligations. The Company expects capital expenditures relating to known environmental matters, including compliance issues and the assessment and remediation of the environmental condition of the Company's properties, will total approximately $3.4 million in 2010.

As at December 31, 2009, the Company had a contingent liability related to severance payments to hourly employees who may become entitled to severance under the terms of their respective governing labour agreements at the Elk Falls and Crofton mills. In addition, the Company had a contingent liability related to severance payments to hourly employees at the Elk Falls, Port Alberni and Powell River mills who may forfeit their right of recall in exchange for severance payments. The Company has not recorded a liability with respect to contingent severances as the likelihood, timing and extent of any potential liability is not determinable.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews long-lived assets, primarily plant and equipment, for impairment when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The Company tests for impairment using a two-step methodology as follows:

(i) Determine whether the projected undiscounted future cash flows from operations exceed the net carrying amount of the assets as of the assessment date; and

(ii) If assets are determined to be impaired in step (i), then such impaired assets are written down to their fair value, determined principally by using discounted future cash flows expected from their use and eventual disposition.

Estimates of future cash flows and fair value require judgements, assumptions and estimates and may change over time. Due to the variables associated with judgements and assumptions used in these tests, the precision and accuracy of estimates of impairment charges are subject to significant uncertainties and may change significantly as additional information becomes known. The carrying value of long-lived assets represented approximately 80% of total assets as at December 31, 2009. If future developments were to differ adversely from management's best estimate of key assumptions and associated cash flows, the Company could potentially experience future material impairment charges.

During the fourth quarter of 2009, as a result of the severity of the decline in demand for the Company's products, the Company conducted step (i) impairment tests on its paper and pulp assets. Estimates of future cash flows used to test the recoverability of long-lived assets included key assumptions related to foreign exchange rates, forecast prices, market supply and demand, estimated useful life of the long-lived assets, production levels, production costs, inflation, weighted average cost of capital, and capital spending. The assumptions are derived from information generated internally, independent industry research firms, and other external published reports and forecasts. The useful life of the Company's assets was estimated at 20 years for paper assets and 10 years for pulp assets. Product sales prices and foreign exchange assumptions for 2010 of CDN$1.00 = US$0.95 were based on management's best estimates incorporating independent market information as well as analysis of historical data, trends and cycles. Product sales prices and foreign exchange assumptions for years 2011 to 2013 were based on forecasts prepared by Resource Information Systems Inc., an independent external firm. The foreign exchange assumption was CDN$1.00 = US$0.93 in 2011 declining to CDN$1.00 = US$0.89 by 2013. Product sales prices and foreign exchange rate assumptions for 2014 and subsequent years were estimated by management based on long-term trend pricing for product sales prices and a long-term expected foreign exchange rate of CDN$1.00 = US$0.88. Step (i) of the impairment test demonstrated that an impairment charge for the pulp and paper assets was not required as the estimated undiscounted cash flows exceeded the carrying values.

The Company's Elk Falls E1 paper machine has been curtailed since September 2007 and its Elk Falls E2 and E5 paper machines have been indefinitely curtailed since February 23, 2009. The demand outlook for newsprint and directory paper remains weak and on January 21, 2010, the Company announced that its Crofton C1 paper machine would be indefinitely curtailed. The Company's paper recycling facility in Coquitlam, which supplies the Crofton paper machines with de-inked pulp, was also indefinitely shutdown in mid-February 2010. The Company has accelerated depreciation on certain paper machines over the past few years in anticipation of declining North American newsprint demand. The Company expects that while global demand will improve in the future over 2009 levels, it will not return to a pre-recession level and the Company will likely have excess newsprint machine capacity. As a result, the Company recorded an asset-impairment charge of $17.4 million in the fourth quarter of 2009. The Company is in discussions with key stakeholders, including unions and municipalities, on cost reductions across its operations. Given the marketing outlook for 2010, the Company expects cost reductions are necessary to restart the idled machines. The Company will continue to assess demand and cost conditions to determine whether improvements are sufficient to enable curtailed machines to return to production. To the extent that business conditions do not improve sufficiently in a reasonable period of time, the Company may consider a permanent shut down of its Elk Falls operations, Crofton paper operations, and paper recycling facility necessitating a further write-down in the future. As at December 31, 2009, the net book value of these assets was approximately $236 million for the Elk Falls paper mill site, approximately $195 million for the Crofton paper mill site, and approximately $70 million for the Coquitlam paper recycling facility.

The Company's pulp production at the Crofton mill was also indefinitely curtailed in March 2009 removing 403,000 tonnes of annualized pulp capacity. The restart of one of the two lines of pulp production on October 5, 2009 re-instated 222,000 tonnes of total pulp capacity on an annualized basis. The second line of pulp production at Crofton remains indefinitely curtailed. As at December 31, 2009, the net book value of the curtailed Crofton pulp mill assets was approximately $19 million.

During 2008, the Company recorded an asset-impairment charge of $136.4 million on assets related to its Elk Falls pulp mill and white top linerboard operation, of which $129.0 million related to property, plant and equipment and $7.4 million related to supplies and spare parts inventory. The Elk Falls pulp mill and white top linerboard operation was permanently closed on November 18, 2008 as a result of the ongoing unavailability of sawdust fibre. In addition, the Company also recorded a $14.6 million asset impairment charge in 2008 on certain specific mill assets that are no longer in use or where the net realizable value has decreased due to the current weak economic environment.

PENSION AND POST-RETIREMENT BENEFITS

The Company maintains various employee future benefit plans, which include defined benefit pension and post-retirement benefit plans. The Company retains independent actuarial firms to perform actuarial valuations of the fair value of the Company's defined benefit pension and post-retirement benefit plan assets and benefit obligations, and to advise on the amounts to be recorded in the Company's financial statements. This information is determined using certain assumptions, based on historical and market data that have a direct impact on the fair value of the assets and obligations and on the charges disclosed in the Company's financial statements. These assumptions include:

- The discount rate, which is used to estimate the actuarial present value of the various plan obligations. The Company, assisted by independent actuarial advisors, sets the discount rate assumption annually to reflect the rates available on high-quality debt instruments, with cash flows that are expected to match the timing and amount of expected benefit payments. As at December 31, 2009, a discount rate of 6% per year was determined by management in consultation with its independent actuarial advisors.
- The long-term return on assets used to estimate the growth in the value of invested assets available to satisfy certain obligations. The Company, with the assistance of independent actuarial firms, sets the expected rate of return on plan assets annually to reflect the current view of long-term investment returns. As at December 31, 2009, a rate of return of 7% per year was determined by management in consultation with its independent actuarial advisors.
- Salary increases used to estimate the impact that future compensation increases would have on pension and other post-retirement obligations. As at December 31, 2009, a rate of compensation increase of 2% per year was determined by management in consultation with its independent actuarial advisors.
- Health care trend rates and mortality rates used to estimate the impact that future health care costs would have on pension and post-retirement obligations. As at December 31, 2009, a health care trend rate of 7% per year was determined by management in consultation with its independent actuarial advisors. The health care trend rate is assumed to decline by 0.5% annually, and the ultimate health care trend rate is assumed to be 4.5%.

Actual experience can vary significantly from estimates and could have a material impact on the estimated cost of employee benefit plans and future cash requirements.

The following table provides a sensitivity analysis of the assumed overall health care cost trend rate used in measuring the net pension benefit obligation, and the net obligation for other employee future benefits and related net periodic benefit cost for 2009. This sensitivity analysis should be used with caution as it is hypothetical and changes in the health care cost trend rate may not be linear.

	Pension benefit plans		Other benefit plans	
(In millions of dollars)	Net benefit obligation	Net 2009 expense	Net benefit obligation	Net 2009 expense
Assumed overall health care cost trend				
Impact of:				
1% increase	n/a	n/a	30.2	3.3
1% decrease	n/a	n/a	(26.0)	(3.7)

PROVISION FOR BAD DEBTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company regularly reviews the collectibility of its accounts receivable. The Company records its allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts by highlighting those that are specifically high risk and applying judgement to arrive at an estimate. Consideration is given to current economic conditions and specific customer circumstances to determine the amount of any bad debt expense to be recorded. Accounts receivable balances for individual customers could potentially be material at any given time. The Company manages its credit risk principally through credit policies, which include the analysis of the financial position of its customers and the regular review of their credit limits and payment terms. The Company also subscribes to credit insurance for a majority of its receivables, periodically purchases accounts receivable puts on certain customers, and obtains bank letters of credit for some export markets and customers. The Company's estimate of the required allowance is a matter of judgement and the actual loss eventually sustained may be more or less than estimated.

The Company recorded bad debt expense of $1.1 million (2008 – $3.1 million) for the year ended December 31, 2009. As at December 31, 2009, "Accounts receivable" comprised 4.9% of total assets. Included in this balance was a provision of $3.7 million for doubtful accounts, or 3.6% of accounts receivable (as at December 31, 2008 – $3.2 million for doubtful accounts, or 1.4% of accounts receivable). The Company believes its allowance for doubtful accounts as at December 31, 2009 is adequate to provide for probable losses existing in accounts receivable.

FAIR VALUE MEASUREMENT

The Company measures its derivative and non-derivative financial instruments at fair value, defined as the price that would be received from selling an asset or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value measurements, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of non-performance.

An established fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is both available and significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

Level 1
Quoted prices in active markets for identical assets or liabilities.

Level 2
Observable inputs other than quoted prices in active markets for identical assets and liabilities, such as quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3
Inputs that are generally unobservable and are supported by little or no market activity and that are significant to the fair value determination of the assets or liabilities.

The determination of fair value requires judgements, assumptions and estimates and may change over time.

The following table presents information about the fair value of the Company's derivative and non-derivative instruments designated as hedging instruments and measured or disclosed at fair value on a recurring basis at December 31:

	2009	2008	Fair value hierarchy	Balance sheet classification
Assets				
Currency contracts	**$ 13.6**	$ –	2 [1]	Prepaids and other
Currency contracts	**3.1**	0.5	2 [1]	Other assets
	$ 16.7	$ 0.5		
Liabilities				
Currency contracts	**$ –**	$ 27.4	2 [1]	Accounts payable and accrued liabilities

1 The fair value of forward currency contracts is measured using the discounted difference between contractual rates and market future rates. Interest rates, forward market rates, and volatility are used as inputs for such valuation techniques. The Company incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the counterparty's non-performance risk in the fair value measurements.

The following table presents information about the fair value of the Company's derivative and non-derivative financial instruments not designated as hedging instruments and measured on a recurring basis at December 31:

	2009	2008	Fair value hierarchy	Balance sheet classification
Assets				
Currency contracts	**$ 2.3**	$ –	2 [1]	Prepaids and other
Currency contracts	**$ –**	$ 34.2	2 [1]	Other assets
Commodity swap contracts	**–**	1.3	2 [2]	Prepaids and other
	$ 2.3	$ 35.5		
Liabilities				
Commodity swap contracts	**$ –**	$ 2.4	2 [2]	Accounts payable and accrued liabilities

Fair value of the Company's derivatives are classified under Level 2 (inputs that are observable; directly or indirectly) as they are measured as follows:

1 The fair value of forward currency contracts is measured using the discounted difference between contractual rates and market future rates. Interest rates, forward market rates, and volatility are used as inputs for such valuation techniques. The Company incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the counterparty's non-performance risk in the fair value measurements.

2 The fair value of commodity swap contracts is measured using the discounted difference between contractual rates and market rates. The fair value of natural gas commodity options is measured using techniques derived from the Black-Scholes pricing model. The Company incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the counterparty's non-performance risk in the fair value measurements.

INCOME TAXES

The amounts recorded for future income tax assets and liabilities are based on various judgements, assumptions and estimates. Future tax assets and liabilities are measured using enacted tax rates for the years in which assets and liabilities are expected to be recovered or settled. A projection of taxable income and estimates of the ultimate recovery or settlement of temporary differences are made for these years. The projection of future taxable income is based on management's best estimate and may vary from actual.

The Company's future tax assets are mainly composed of temporary differences relating to employee future benefits and loss carry-forwards. Future tax liabilities are mainly composed of temporary differences pertaining to property, plant and equipment. Estimating the ultimate settlement period for these temporary differences requires making judgements. The reversal of these temporary differences is expected to be at future substantially enacted rates which could change due to changes in income tax laws. As a result, a change in the timing of reversal or in the income tax rate could materially affect the future tax expense recorded in the consolidated statement of earnings. A one-percentage-point change in the Company's reported effective income tax rate would have the effect of changing income tax expense by approximately $0.8 million.

In addition, the Company records provisions for federal, provincial and foreign taxes based on the respective tax laws of the jurisdictions in which it operates and on its judgement as to the appropriate allocation of income and deductions to these jurisdictions. Canadian, U.S. and international tax laws are subject to interpretation, and the Company's judgement may be challenged by taxation authorities. In such circumstances, the final resolution can result in settlements that differ from the Company's estimated amounts.

12 CHANGES IN ACCOUNTING POLICIES

In February 2008, the Canadian Institute of Chartered Accountants Accounting Standards Board confirmed that a changeover to International Financial Reporting Standards ("IFRS") from Canadian GAAP would be required for publicly accountable enterprises' interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. This decision establishes standards for financial reporting with the aim of consistency in the global marketplace. In September 2009, the Canadian Securities Administrators affirmed the proposal that Canadian public companies registered with the U.S. Securities Exchange Commission ("SEC") could retain the option to prepare their financial statements under U.S. GAAP instead of IFRS.

Effective for its year ended December 31, 2009, the Company has chosen to adopt U.S. GAAP for presentation of its consolidated financial statements for Canadian and United States reporting requirements. Historically, the Company has presented its annual and interim consolidated financial statements in accordance with Canadian GAAP and reconciled to U.S. GAAP the material recognition, measurement and presentation differences in the annual consolidated financial statements. As a result of its transition to U.S. GAAP, the Company has presented its 2009 annual audited consolidated financial statements in accordance with U.S. GAAP and included reconciliation of material recognition, measurement and presentation differences to Canadian GAAP. The decision to adopt U.S. GAAP was approved by the Company's Board of directors after due consideration of the benefits and disadvantages of reporting under U.S. GAAP versus IFRS.

More information on the impact of U.S. GAAP on the Company's consolidated earnings and consolidated balance sheets is presented in note 33 "Reconciliation of United States and Canadian General Accepted Accounting Principles" to the Company's consolidated financial statements for the year ended December 31, 2009.

During 2009, the Company adopted the following new pronouncements issued by the Financial Accounting Standards Board ("FASB"):

- In July 2009, the FASB Accounting Standards Codification ("ASC") became the single source of authoritative U.S. GAAP for non-government entities. The ASC hierarchy consists of two levels, authoritative literature, and non-authoritative literature. The ASC does not change GAAP, but is designed to simplify access to and research on authoritative GAAP. The authority of the rules and interpretive releases of the U.S. SEC has not changed as a result of the implementation of the ASC. The ASC is effective for financial statements issued for interim and annual periods ended September 15, 2009. The Company adopted the FASB ASC in the preparation of its annual consolidated financial statements for the year ended December 31, 2009.
- In May 2009, the FASB issued a Subsequent Events Topic in the ASC, which establishes general standards of accounting for and disclosure of subsequent events. The Topic is based on the same principles as currently exist in the auditing standards and requires disclosure of the date through which an entity has evaluated subsequent events and is effective for interim or annual financial periods ending after June 15, 2009. The Company adopted the disclosure requirements of this Topic in its annual consolidated financial statements for the year ended December 31, 2009.
- In December 2008, the FASB amended the Compensation-Retirement Benefits Topic of the ASC. The amendments provide guidance on an employer's disclosure regarding plan assets of a defined benefit pension or other post-retirement plan and require disclosures surrounding how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies. Additional disclosures include (i) the major categories of plan assets, (ii) the inputs and valuation techniques used to measure the fair value of plan assets, and (iii) the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period and the significant concentrations of risk within plan assets. The disclosures are effective for fiscal years ending after December 15, 2009. Upon initial application, the amendments to this Topic are not required for earlier periods that are presented for comparative purposes. The Company adopted the disclosure requirements of this Topic in the preparation of its annual consolidated financial statements for the year ended December 31, 2009.

- In March 2008, the FASB amended the Derivatives and Hedging Topic of the ASC. The amendments expand quarterly disclosure requirements about an entity's derivative instruments and hedging activities. The amendments are effective for fiscal years beginning after November 15, 2008. The Company adopted the disclosure requirements of this Topic in its annual consolidated financial statements for the year ended December 31, 2009.
- In December 2007, the FASB amended the Consolidation Topic of the ASC as it relates to how an entity accounts for identifiable assets acquired, liabilities assumed, non-controlling interests acquired, and goodwill acquired, and how it determines the disclosures required as part of a business combination. The amendments apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted these amendments in the preparation of its annual consolidated financial statements for the year ended December 31, 2009.
- The amendments to the Consolidation Topic of the ASC in December 2007 included changes to the Topic as it relates to the presentation and disclosure for entities that have equity investments not attributable to the parent, called non-controlling interests or minority interests. The amendments establish where and how to report non-controlling interests in the consolidated statements of financial position and operations, and how to account for changes in non-controlling interests, and also establish disclosure requirements. The amendments are effective for fiscal years beginning on or after December 15, 2008. The Company adopted the amendments in the preparation of its annual consolidated financial statements for the year ended December 31, 2009.

13 IMPACT OF ACCOUNTING PRONOUNCEMENTS AFFECTING FUTURE PERIODS

In June 2009, the FASB amended the Consolidation Topic of the ASC, as it relates to the consolidation of variable interest entities. The amendments change how an entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. Qualified special-purpose entities will no longer be exempt from consolidation requirements. The determination of whether a company is required to consolidate an entity is based on, among other things, the entity's purpose and design and the company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The amendments to this topic are effective January 1, 2010. The Company is currently assessing the impact that the amendments would have on its financial statements or disclosures.

14 RISKS AND UNCERTAINTIES

The Company may be unable to meet its cash requirements for operations or to pay or refinance its outstanding debts as they mature, and may be unable to secure additional funding sources.

The Company's principal cash requirements are for ongoing operating costs including pension contributions, working capital fluctuations, and capital expenditures, as well as principal and interest payments on debt. Assuming no further deterioration in the Company's business, the Company anticipates that operating cash requirements for 2010 can be funded through internally generated funds from operations and, where necessary, advances under the Company's ABL Facility. However, in the event of a further deterioration in the Company's business or if the current market conditions continue for a prolonged period, these sources may not be sufficient to meet cash requirements for operations and additional funding sources may be required. Additional funding sources will also be required to repay the Company's outstanding debt as it matures. In normal market conditions, such additional funding would typically be obtained through the issuance of debt and/or equity securities. However, credit and capital markets have been volatile over the last several years and market access for non-investment grade companies, including the Company, has been limited or non-existent for extensive periods of 2008 and 2009. Accordingly, there can be no assurance that the Company will be able to access debt or equity markets to the extent necessary to fund any shortfall arising from operations or to repay or refinance the Company's outstanding debt as it matures.

The Company's current President and Chief Executive Officer has resigned from such positions effective end of May, 2010. If the Company does not employ a new President and Chief Executive Officer by the time of his departure, it will not have an executive officer to perform important managerial and oversight functions.

On January 25, 2010 the Company's Board of directors accepted the resignation of its President and Chief Executive Officer, Richard Garneau, who will be leaving the Company at the end of May, 2010. The Board of directors has established a search committee to identify candidates for President and Chief Executive Officer. However, no assurances can be given that the Company will be able to select and employ a new President and Chief Executive Officer prior to the time that Mr. Garneau intends to depart. In such event, the Company would need to appoint a person to perform such responsibilities on an interim basis. If the Company is not able to employ a new President and Chief Executive Officer by the time of Mr. Garneau's departure, it will not have an executive officer to perform the important managerial and oversight functions customarily performed by a Company's chief executive. If this condition persists for an extended period, the Company's business, financial condition and results of operations could be adversely affected.

The Company may have liabilities related to future severance payments to employees at several of its mills.

Due to on-going weak market conditions, the Company has continued to curtail certain operations at its Elk Falls and Crofton mills. As at December 31, 2009, these curtailments have affected approximately 300 hourly employees at the Elk Falls mill and approximately 70 hourly employees at the Crofton mill through protracted lay-offs. The labour agreement between the Company and union locals provides that if an hourly employee has been on lay-off for 12 months (lay-off is defined as having the opportunity to work less than 900 hours during the 12 month period), and, at the end of that 12 month period, the Company has no plan to re-employ the employee during the three months following, the affected employee has an option of requesting a severance payment. Employees requesting a severance payment would lose their rights of recall under the agreement. The labour agreement between the Company and PPWC Local 2 at Crofton, has similar provisions under which severance applies, although the 900 hour threshold does not apply. The Company estimated that should the conditions giving rise to severance at Elk Falls and Crofton be met, the potential severance payment would be approximately $19 million. The Company did not record a liability for this contingency as of December 31, 2009 as it had not determined what the future of these operations would be and could not know how many employees would request their severance, as opposed to retaining their recall rights, should they become eligible for severance in the future. Therefore, the likelihood, timing, and extent of any potential liability were not determinable. Subsequent to December 31, 2009, and as at March 10, 2010, 190 hourly employees at Elk Falls had requested severance payments, resulting in an aggregate severance charge of $11.5 million. The Company may not be able to restart the Elk Falls mill if all of the remaining hourly employees of this mill decide to forfeit their recall rights and request severances, in which case, the Company would consider permanently closing this mill.

In addition to the hourly employees on lay-off due to production curtailments, as at December 31, 2009, there were approximately 100 hourly employees who were on lay-off at the Company's Elk Falls, Port Alberni, and Powell River mills due to restructuring and other initiatives. These employees are entitled to rights of recall in the range of 12 to 42 months from the last day worked, but at any time may forfeit their rights of recall in exchange for severance payments. If all affected employees exercise their severance rights at some point and thereby forfeit their recall rights, the Company estimates that the total severance payment would be approximately $3.8 million. The Company did not record a liability for this contingency as of December 31, 2009 as the likelihood, timing, and extent of any potential liability were not determinable. Subsequent to December 31, 2009, and as at March 10, 2010, 41 hourly employees had exercised their severance rights, resulting in an aggregate severance charge of $1.5 million.

The Company's business is of a cyclical nature and demand for its products may fluctuate significantly.

The markets for pulp and paper products, including the Company's products, are highly variable and are characterized by periods of excess product supply due to many factors, including:

- Additions to industry capacity;
- increased industry production;
- structural changes in the industry;
- periods of insufficient demand due to weak general economic activity or other causes; and
- reduced inventory levels held by customers.

Demand for forest products is generally correlated with global economic conditions. Consumption of pulp and paper products, in particular, is driven primarily by levels of advertising. In periods of economic weakness, reduced spending by consumers and businesses results in decreased demand for forest products, causing lower product prices and possible manufacturing downtime. Market conditions are expected to be challenging throughout 2010 as a result of the significant weakening of the North American and global economies in 2008 and 2009. Adverse effects on demand for the Company's products may decrease its sales, operating income and cash flows. In addition, the North American newsprint market is mature and North American demand declined year-over year in 2009 by 25.3%, after declining year-over-year by 11.2% in 2008, and by 10.5% in 2007. Similarly, demand for directory paper declined year-over-year by 21.3% in 2009 and by 9.5% in 2008. The Company believes these declines in newsprint and directory paper demand will continue long-term, although it is able to partially mitigate the impact through its ability to switch production from newsprint and directory paper to other paper grades. In addition, demand for the Company's products is traditionally weaker in the first half of the year.

The Company has implemented a policy of matching production to orders. Currently, a portion of the Company's operations are indefinitely curtailed. Further periods of weak demand for the Company's products may result in additional indefinite or periodic production curtailments. Such production curtailments could have an adverse impact on the Company's financial condition and result in the Company's inability to generate sufficient cash flows to satisfy its operational needs.

The Company operates in a commodity market where prices may fluctuate significantly.

The pulp and paper industry is a commodity market in which producers compete primarily on the basis of price. Prices for the Company's products have fluctuated significantly in the past and may fluctuate significantly in the future, principally as a result of market conditions of supply and demand, as well as changes in exchange rates. The Company's earnings are sensitive to price changes for its principal products, with the effect of price changes on newsprint and mechanical specialty printing paper grades being the greatest. Market prices for the Company's products typically are not directly affected by input costs or other costs of sales and consequently the Company has limited ability to pass through increases in operating costs to its customers without an increase in market prices. Even though the Company's costs may increase, its customers may not accept price increases for its products or the prices for its products may decline. As the Company's financial performance is principally dependent on the prices it receives for its products, prolonged periods of low prices, customer refusal to accept announced price increases, or significant cost increases that cannot be passed on in product prices may be materially adverse to the Company.

Media trends may permanently affect demand for the Company's products.

Trends in advertising, electronic data transmission and storage, and the internet could have adverse effects on traditional print media including the Company's products and those of its customers. The Company's newspaper, telephone directory and retail customers may make increasing use of other forms of media and advertising instead of newsprint, uncoated mechanical and coated mechanical papers made by the Company. The extent to which the use of other media sources will reduce demand for the Company's products, and the timing of any such reduction is unknown.

The Company has withheld payment of a significant portion of its property taxes in B.C.

The Company has been assessed a total of $19.2 million in municipal property taxes related to four of the B.C. municipalities in which the Company operates. The Company petitioned the Supreme Court of B.C. for judicial review of the property taxes assessed against it for the 2009 year in these municipalities, seeking declarations that the tax rates for major industry are unreasonable and therefore beyond the municipalities' jurisdiction. As a result, the Company did not pay all of the property taxes assessed against it by these municipalities when due on July 2, 2009.

The Company's petition with respect to the District of North Cowichan was dismissed on October 16, 2009. The petitions with respect to the other three municipalities were dismissed on December 21, 2009, with the exception of that portion of the Campbell River petition relating to the Regional District property tax, which represents approximately $0.4 million of the total Campbell River property tax bill that was not paid. The Company has appealed all four rulings to the B.C. Court of Appeal. The first appeal relating to North Cowichan is expected to be heard on an expedited basis in mid-March 2010. In exchange for the Company's consent to proceed on an expedited basis, the District of North Cowichan has agreed not to initiate any collection proceedings against the Company for the outstanding taxes, penalty and interest until seven days after the appeal judgement is handed down. If the B.C. Court of Appeal dismisses the Company's appeal, the Company will have seven days to decide whether it wishes to seek leave to appeal to the Supreme Court of Canada. If the Company does not seek leave to appeal, the Company has agreed to pay its outstanding 2009

taxes relating to the District of North Cowichan immediately. In January 2010, the City of Port Alberni commenced an action in the Supreme Court of B.C. seeking payment of $3.3 million in unpaid taxes, plus applicable penalties and interest. On March 4, 2010, the court ordered the Company to pay the unpaid taxes, penalties and interest into court, pending the outcome of the appeal of the District of North Cowichan matter. If the appeal is successful, the Port Alberni amounts will be returned to the Company; if the appeal is not successful, the monies will be paid to Port Alberni.

Notwithstanding the court proceedings initiated by the Company, and in the absence of the Company obtaining a judicial stay as described below, the municipalities are entitled to certain remedies in connection with the unpaid amount of assessed property taxes, including seeking and enforcing a judgement to collect such taxes or retaining a bailiff to distrain against the Company's goods, chattels and inventory and selling them to recover the debt. In addition, the outstanding debt for property taxes in each municipality is a special charge upon the Company's lands and improvements in the respective municipality. This special charge has priority over any claim, lien, privilege or encumbrance of any person except the Crown on the lands and improvements. The unpaid taxes are subject to a 10% penalty (except in Port Alberni where the penalty was 5% on July 2, 2009 and 5% on October 1, 2009) and after December 31, 2009, will bear compound interest at the prime rate of interest of the principal bank to the Province of B.C. plus 3% per annum. As of March 11, 2010, the total amount of unpaid taxes, together with the applicable penalties and interest, is $14.8 million.

Payment of the outstanding tax amount together with applicable penalties and interest at any time would extinguish all of the municipalities' enforcement rights related to non-payment. If a municipality sought to enforce one or more of the remedies described above before the conclusion of the court proceedings initiated by the Company, the Company could seek a stay preventing the municipality from enforcing those rights until final determination of the legal issues had been made. The decision to order a stay would be at the discretion of the court. While a stay would halt enforcement pending judgement in the initial court proceedings, it would not remove the municipality's special charge upon the affected lands and improvements as described above. If any 2009 taxes remain unpaid on September 26, 2011, the municipality must proceed to a tax sale. In that event, the Company would have until September 26, 2012, to redeem the property by paying all outstanding taxes, penalties, interests and fees to the date of redemption.

The Company is subject to the risks of exchange rate fluctuations.

Nearly all of the Company's sales are based upon prices that are set in U.S. dollars, while a substantial portion of its costs and expenses are incurred in Canadian dollars and its results of operations and financial condition are reported in Canadian dollars. The value of the Canadian dollar in relation to the U.S. dollar has increased significantly in recent years. An increase in the value of the Canadian dollar relative to the U.S. dollar would reduce the amount of revenue in Canadian dollar terms realized by the Company from sales made in U.S. dollars. This would reduce the Company's operating margin and the cash flow available to fund its operations and to service the portion of its debt that is denominated in Canadian dollars.

Fluctuations in foreign currencies affect the Company's competitive position in world markets. Apart from the value of the Canadian dollar relative to the U.S. dollar, the Company's competitiveness in world markets is also affected by the relative strength of the currencies of other producing countries compared to the Canadian dollar.

The Company is also exposed to currency exchange risk on debt denominated in U.S. dollars, including its 8.625% senior notes, its 7.375% senior notes, and, as of March 10, 2010, its 11.0% senior notes. For the purposes of financial reporting, any change in the value of the Canadian dollar against the U.S. dollar during a given financial reporting period would result in a foreign currency gain or loss on the translation of U.S. dollar cash and cash equivalents or U.S. dollar-denominated debt into Canadian currency. Consequently, the Company's reported earnings could fluctuate materially as a result of foreign exchange translation gains or losses.

Under a board-approved foreign exchange risk management program, the Company manages a portion of its currency exposure through the use of currency options and forward contracts to hedge anticipated future sales denominated in foreign currencies and U.S. dollar-denominated debt. The Company's hedging policy for revenues includes 0% to 67% of 0- to 12-month and 0% to 25% of 13- to 24-month U.S. dollar net exposure. The revenue hedge program offsets the impact of any rapid movements in currency by 20% to 50% over the near term. In addition, the Company considers future U.S. dollar revenues to provide a partial natural hedge for its U.S. dollar-denominated debt, which as of December 31, 2009 was US$604.2 million. The Company's hedging policy for its U.S. dollar-denominated debt includes 0% to 60% of U.S. dollar net exposure. However, no assurance can be made that the Company will engage in any hedging transactions or, if it decides to engage in any such transactions, that it will be successful in eliminating currency exchange risks and that changes in currency exchange rates will not be materially adverse to the Company.

The Company faces significant global competition.

The markets for the Company's products are highly competitive on a global basis. The Company generally competes with American, European and Asian producers. Many of these competitors are larger and have greater financial resources than the Company and some of the mills operated by the Company's competitors are lower-cost producers than the mills the Company operates.

In addition, the following factors, among others, will also affect the Company's ability to compete:

- The quality of its products and customer service;
- its ability to maintain high plant efficiencies and operating rates and thus lower manufacturing costs;
- the cost of energy; and
- the availability, quality and cost of fibre and labour.

Some of the Company's competitors have lower energy, furnish and labour costs and fewer environmental and governmental regulations to comply with than the Company does. Others are larger in size, allowing them to achieve greater economies of scale on a global basis. There may be a materially adverse impact on the Company were it unable to successfully compete on a global basis and achieve sufficient economies of scale.

The Company faces risks related to its international sales.

A significant portion of the Company's sales are outside of Canada and the United States. For example, approximately 97% of the Company's pulp sales volume and 15% of its paper sales volume were derived from markets outside of Canada and the United States in the year ended December 31, 2009. As a result, the Company faces a number of risks and challenges, including, but not limited to:

- The effective marketing of its products in these global regions;
- fluctuations in foreign currencies which may make its products less competitive in countries whose currencies decline in value relative to the Canadian dollar;
- restrictive government actions, such as the imposition of trade quotas, tariffs and other trade barriers, and restrictions on transfers of funds;
- changes in non-Canadian labour laws and regulations affecting its ability to hire, retain or dismiss employees;
- the need to comply with multiple and potentially conflicting laws and regulations;
- unfavourable business conditions or political or economic instability in a country or region;
- higher transportation costs reflecting increases in the price of oil; and
- difficulty in obtaining distribution and sales support.

The Company is exposed to fluctuations in the cost and supply of wood fibre.

The Company's operations are dependent on the supply of wood fibre by third parties as it has no significant timber holdings. Approximately 65% of the Company's fibre needs are provided by five suppliers. The Company's fibre supply could be reduced as a result of events beyond its control, such as industrial disputes, natural disasters, and material curtailments and shutdown of operations by suppliers for market or other reasons. Market-related curtailments or shutdowns can be influenced by both seasonal and cyclical factors, such as raw material availability, finished goods inventory levels, interest rates and underlying demand for lumber in key markets.

Long-term fibre agreements with third parties are based on market prices or on prices determined under market-based formulas and represent approximately 69% of purchases by the Company's pulp and paper mills. The solid wood segment of B.C.'s forest industry has undergone significant consolidation and downsizing. As a result, no assurance can be made that the Company will continue to have access to wood fibre at levels previously achieved. As a result, costs may have the potential to be adversely affected by forces beyond the Company's control.

In 2009, housing starts in the United States declined approximately 39% from 2008, which was already 33% below the level of 2007. The weak U.S. housing market caused production curtailment for B.C.'s lumber producers, and this resulted in a reduction in residual fibre supply available to the Company. As the Company took extensive market-related curtailment during 2008 and 2009, this reduction in available fibre did not impact the level of production during those years, except for the permanent closure of the Elk Falls pulp mill and white top linerboard operation in 2008. However, if demand for the Company's products was to increase significantly there is no assurance that the Company could obtain sufficient fibre to operate at full pulp and paper capacity.

The current infestation of the mountain pine beetle in the interior of B.C. has reduced the long-term fibre supply in the region. The beetle attacks lodgepole pine forests and, once attacked, pine trees typically die within a year. Approximately 40% of the Company's fibre supply comes from the B.C. interior and is used primarily by the Powell River paper mill and Crofton kraft pulp mill. The infestation could have a significant impact on the availability, quality and cost of fibre used by those mills.

In addition, government regulations and aboriginal issues may also lower the availability of wood fibre. The Province of B.C. owns approximately 95% of all timberlands and could introduce legislation to reduce wood-fibre supply. Aboriginal groups have claimed aboriginal title over substantial portions of B.C.'s timberlands, including areas where the forest tenures held by the Company's suppliers are located. Although the renewal of forest tenures held by the Company's suppliers may be adversely affected by claims of aboriginal title, the specific impact cannot be estimated at this time.

The Company is also a large consumer of ONP, used to manufacture DIP, which is used as fibre for the Company's recycled products. The Company's ownership of western Canada's largest paper recycling facility located in Coquitlam, B.C., enables it to produce 100% of the DIP required by its mills in B.C. Although the paper recycling facility is currently indefinitely curtailed, changes in market demand and customer requirements could result in the restart of the recycling facility. While the supply of ONP to this facility has been reliable in the past, there is a risk that sufficient quantities of ONP may not be available to support full operation of the recycling facility or that prices for ONP may rise beyond the point at which the facility can be operated profitably. The price of ONP may be affected by a number of factors such as export demand, recovery rates and other factors beyond the control of the Company.

The Company's Snowflake mill makes 100% recycled newsprint from ONP. There is a risk that sufficient quantities of ONP will not be available to the Company to support full operations at Snowflake or that an increase in ONP prices will affect the profitability of the mill. The price of ONP may be impacted by a number of factors, such as export demand, recovery rates and other factors beyond the control of the Company.

The Company's substantial debt may impair its financial and operating flexibility.

As of December 31, 2009, the Company had outstanding $662.7 million of recourse debt on a consolidated basis, excluding non-recourse debt of $94.1 million. This non-recourse debt is owed by PREI in which the Company has a 50.001% interest that it consolidates into its accounts because PREI is a variable interest entity in which the Company is the primary beneficiary.

The Company has a $330.0 million asset-based revolving operating facility, which matures in August 2013. The collateral securing this facility consists of the accounts receivable, inventories, and cash of the Company as well as a first charge on the property, plant and equipment of the Snowflake mill and related operations. Availability under the ABL Facility is determined by a borrowing base, calculated primarily on balances of eligible accounts receivable and inventory, less certain reserves. As of December 31, 2009, $74.3 million was available to be drawn under the ABL Facility, after taking into account a covenant that requires the Company to maintain $35.0 million in availability under the ABL Facility. The ABL Facility includes financial covenants to maintain shareholders' equity above $639.0 million, maintain excess availability above $35.0 million and to not make capital expenditures in excess of 120% of the annual budget.

The Company's debt agreements contain, and future debt agreements will likely contain, various restrictive and financial covenants, including restrictions on its ability to incur debt, sell assets, make investments, pay dividends, secure liens, enter into transactions with affiliates and enter into mergers, consolidations or acquisitions. All of these restrictions, together with the Company's substantial debt, could:

- Limit its ability to obtain additional financing to fund its growth strategy, working capital, capital expenditures, debt service requirements or other purposes;
- limit its ability to use operating cash flow in other areas of its business, because it must use a portion of these funds to make principal and interest payments on its debt;

- increase its vulnerability to interest rate fluctuations because the debt under its ABL Facility is at variable interest rates;
- limit its ability to compete with companies that have more flexibility in the use of their cash flow;
- limit its ability to make investments or take other actions; and
- limit its ability to react to changing market conditions, changes in its industry and economic downturns.

The Company's ability to satisfy its debt obligations will depend upon its future operating performance and its ability to obtain additional debt or equity financing when necessary. Prevailing economic conditions and financial, business and other factors beyond its control may affect the Company's ability to make these payments. For example, the Company has been and may continue to be adversely affected by depressed market and other conditions, including (i) the current state of the global economy in general and tighter credit markets in particular, and (ii) a challenging operating environment making it more difficult to generate sufficient cash flows due to (a) the significant decreases in demand, particularly in North America, for newsprint and directory paper, and other products (b) the strength of the Canadian dollar versus the U.S. dollar, and (c) the pricing environment for both paper and pulp products. If in the future the Company cannot generate sufficient cash from operations to meet its obligations, it will need to renegotiate its loan agreements, refinance all or part of its notes, obtain additional financing or sell assets. No assurance can be made that the Company's business will generate sufficient cash flow or be able to obtain the funds necessary to satisfy these obligations or that it will be able to obtain additional or alternative financing.

Similarly, if the Company breaches or is unable to meet the restrictions or financial covenants under its ABL Facility or under the indentures relating to its 2011 notes and 2014 senior notes, or other credit facilities and debt agreements it may enter into in the future, including, as of March 10, 2010, the indenture relating to the new 2016 senior notes, the Company would have to cure the default, obtain a waiver of the default or enter into an appropriate amendment to these agreements. If the Company is not able to cure such default, obtain such waiver or enter into such amendment, a significant portion of its debt, including all of its secured debt, would become immediately due and payable. The Company may not have, or be able to obtain, sufficient funds to make accelerated debt payments if required. No assurance can be made that the Company will be able to effectively cure a breach or obtain debt or equity financing or sell assets as an alternative means of responding to a breach. As of December 31, 2009, the Company was in compliance with the covenants under both the agreement governing its ABL Facility and the indentures governing its 2011 notes and 2014 senior notes. The Company's fixed-charged coverage ratio under the senior notes, calculated on a trailing 12-month basis, was 1.5:1 as of December 31, 2009.

The Company's ABL Facility provides it with financing at floating interest rates. Future debt instruments may also be based on floating interest rates. The interest rates charged on the ABL Facility depend on the excess availability the Company has under the facility. Accordingly, changes in excess availability reduce or increase the Company's borrowing costs.

The Company has incurred losses in recent periods and may incur losses in the future that may affect liquidity and ongoing operations.

As of December 31, 2009, the Company had recorded net losses in eight of the last 12 quarters. These losses were driven by reduced prices, weak market demand and fibre shortages, resulting in production curtailments and closure of operations. The strengthening Canadian dollar also contributed to these losses. The Company will not achieve and maintain profitability in future periods if its revenues do not increase sufficiently, or if revenues increase but the Company is unable to manage its expenses. Should the Company continue to be unable to return to sustained profitability in future periods, funds generated through operations may not be sufficient to meet operating cash requirements and the Company will need to rely to a greater extent on the ABL Facility to fund operating costs. The ABL Facility may not be available or may be insufficient to meet cash requirements for operations in such circumstances and additional sources of funds may be required. No assurance can be given that the Company will be able to access debt or equity markets to raise such funds or obtain any other source of financing. The failure to obtain such funds could adversely affect the Company's operations and its ability to comply with covenants under the ABL Facility or senior notes.

Labour disruptions could have a negative impact on the Company's business.

Approximately three-quarters of the Company's existing pulp and paper mill employees in its Canadian operations are members of the CEP, PPWC or the Canadian Office and Professional Employees Union ("COPE"). Collective agreements with the CEP and PPWC locals at Crofton, Elk Falls, and Powell River were renegotiated in 2008 and expire in April 2012. A collective agreement with CEP locals at Port Alberni was also renegotiated in 2008 and expires in April 2013. Surrey distribution centre employees are members of the Christian Labour Association of Canada ("CLAC") and two employees at the Port Alberni operations are members of COPE. The collective agreements with each of CLAC and COPE expire in April 2012. Most hourly employees at the Snowflake mill are members of the United Steelworkers ("USW") or the International Brotherhood of Electrical Workers ("IBEW"). Hourly employees of Apache Railway are members of the United Transportation Union ("UTU") or Carpenters Union. The collective agreements with the USW, IBEW ,UTU and Carpenters Union expire in 2011. The Company does not anticipate labour disruptions in its operations.

Claims of aboriginal title and rights in Canada may affect the Company's operations.

The Company's ability to operate its manufacturing facilities may also be affected by aboriginal groups' claims of aboriginal title and rights. The governments of Canada and B.C. have established a formal process to negotiate settlements with aboriginal groups throughout B.C. in order to resolve these land claims. It is the policy of the governments that ownership of lands held in fee simple by third parties such as the Company will not be affected by treaty negotiations. The Powell River mill site has been included in areas to which an aboriginal group has asserted aboriginal title both through treaty negotiations with government and by commencing an action in 2005 in the Supreme Court of B.C. While the Company and other industrial companies have been named as parties in the court proceeding along with the governments of Canada and B.C., counsel for the aboriginal group has advised the Company that the plaintiffs are currently negotiating with these two governments and have no intention of proceeding with the action at this time. Based on the history of similar proceedings, the Company expects that it would be many years before a final court decision could be rendered if the proceeding were pursued.

Recent Supreme Court of Canada decisions have confirmed that the governments of Canada and B.C. are obligated to consult with and, in certain circumstances, accommodate aboriginal groups whenever there is a reasonable prospect decisions, such as a decision to issue or amend a regulatory permit, may affect aboriginal groups' rights or title. This duty of consultation and accommodation may affect the Company's ability to obtain or amend necessary regulatory permits on a timely basis and may influence the conditions set out in such permits.

Increases in energy costs could have a negative impact on the Company's business.

The Company is a significant consumer of electrical power. The Company's electricity supply agreements are provincially regulated, and pricing has historically been very stable. However, in recent years BC Hydro and Power Authority ("BC Hydro") has sought, and to some extent achieved, rate increases above historical levels. Although much of the impact of these rate increases has been offset by the Company through reductions in usage at the highest incremental power rate, the Company expects BC Hydro rate increases to be more significant in the future in response to a new B.C. energy policy mandating self-sufficiency by 2016 and reflecting the higher cost of marginal resources. The Company believes B.C.'s electricity rates will continue to be low relative to other regions in North America, although future changes in electricity prices could have a significant impact on the Company's earnings.

The majority of fossil fuels used by the Company, particularly oil and natural gas, are purchased on the spot market, which can fluctuate significantly depending on various external factors. The Company has sought to reduce the cost of energy by reducing fossil fuel usage through increased use of wood waste ("hog fuel") and has invested in energy-efficient hog fuel boilers at its mills. However, hog fuel availability is dependant on sawmill operating rates, which are subject to the strength of the lumber market. During periods of 2009 in which natural gas prices were low, the Company aggressively pursued opportunities to reduce hog fuel consumption.

A portion of the Company's exposure to fluctuating fossil fuel prices is managed through the use of financial instruments and physical supply agreements under an energy program approved by its Board of directors. The Company's energy hedging policy is restricted to 0% to 70% of the net exposure for oil and gas. In addition, when technically feasible and subject to emissions permits, the Company reduces its exposure to fossil fuel prices through the substitution of lower-priced alternatives.

Freight charges and chemical expenses also vary with oil and diesel fuel prices.

The Company is subject to significant environmental regulation.

The Company is subject to extensive environmental laws and regulations which impose stringent standards on it regarding, among other things:

- Air emissions;
- water discharges;
- use and handling of hazardous materials;
- use, handling and disposal of waste; and
- remediation of environmental contamination.

The Company may be required to incur substantial costs to comply with environmental laws. Enforcement of existing environmental laws and regulations has become increasingly strict. Some of the Company's operations are also subject to stringent permitting requirements and from time to time it faces opposition to construction or expansion of proposed facilities, such as landfills. The Company may discover currently unknown environmental liabilities in relation to its past or present operations or at its current or former facilities, or it may be faced with difficulty in obtaining project approvals in the future. These occurrences may (i) require site or other remediation costs to maintain compliance or correct violations of environmental laws and regulations, (ii) result in denial of required permits, (iii) result in government or private claims for damage to person, property or the environment, or (iv) result in civil or criminal fines and penalties or other sanctions.

On February 20, 2008, the B.C. government announced a broad-based carbon tax on fossil fuels, commencing July 1, 2008. For the year ended December 31, 2009, the Company paid $2.4 million related to this carbon tax and the impact may increase in future years, due to the announced annual increases in the carbon tax rates for various fuel types. These increases may be mitigated depending on the Company's ability to decrease its use of fossil fuel.

The federal government of Canada has indicated its intent to regulate priority air pollutants and GHGs under the *Canada Clean Air Act* and the *Canadian Environmental Protection Act*. The forest products sector is expected to be one of the targeted sectors for regulation under both acts. The priority air pollutants include particulate matter and sulphur oxides ("SOx"). Under the proposed targets, the Company's Crofton mill may be required to reduce particulate matter and SOx emissions. The cost of making any such reductions is currently unknown. In January 2010, the federal government, as part of its commitment to the Copenhagen Accord, announced a GHG reduction target of 17% by 2020 based on 2005 emissions. It is unknown what the federal government's final position on these initiatives will be, as none have been enacted into law.

The Province of B.C. is a signatory to the Western Climate Initiative (WCI), a collaboration of four provinces and seven U.S. states, whose mandate is to achieve a 15% reduction in GHGs below 2005 levels among member entities by 2020. In addition, the B.C. government has announced its goal of reducing the provincial release of GHGs by 33% by 2020, based on 2007 levels, with interim reduction targets of 6% by 2012 and 18% by 2016. The WCI and B.C. have stated their intention to implement a cap and trade system by 2012. It is too early to determine the impact on the Company and whether the Company will have a deficit or surplus of carbon credits under any relevant regulatory cap and trade scheme.

On November 25, 2009, B.C.'s GHG reporting regulation was passed by the B.C. government and became effective January 1, 2010. The regulation includes requirements for calculating and reporting GHG emissions from facilities that release 10,000 tonnes or more of GHGs per year plus third-party verification at facilities that release 25,000 tonnes or more. This new regulation will affect at least three of the Company's five paper mills.

The finalization of Canadian federal and provincial climate change regulation may depend on regulatory initiatives undertaken in the U.S. It is, therefore, too early to determine the overall impact of these initiatives on the Company or when they may come into effect.

The United States has indicated its intention to introduce more stringent environmental regulation and implement policies designed to reduce GHG emissions. An energy and climate change bill was passed by the U.S. House of Representatives in June 2009 setting a GHG reduction target of 17% below 2005 levels by 2020 increasing to 83% by 2050. The Senate is currently reviewing this bill with a vote expected later this year. On December 29, 2009, the U.S. Environmental Protection Agency's Mandatory Reporting of Greenhouse Gases Rule came into effect. This will require the Snowflake mill to install a continuous monitor on its power boiler stack to monitor and report on carbon dioxide emissions.

It is too early to determine the full impact these laws and policies will have on the Company's Snowflake operations, but the Company could be required to incur additional capital expenditures, purchase offset credits, or take other actions that increase the capital or operating costs at the mill.

Additional regulatory initiatives may be implemented in other jurisdictions to address GHG emissions and other climate-change-related concerns. If and to the extent the Company operates or offers its products for sale in such jurisdictions it may be required to incur additional capital expenditures, operating costs or mitigating expenses, such as carbon taxes, to comply with any such initiatives.

The Company is dependent on the supply of certain raw materials.

In addition to wood fibre and ONP, the Company is dependent on the supply of certain chemicals and other inputs used in its production facilities. Any disruption in the supply of these chemicals or other inputs could affect the Company's ability to meet customer demand in a timely manner and harm its reputation. Any material increase in the cost of these chemicals or other inputs could have a negative impact on the Company's profitability.

Increases in capital and maintenance expenditures and equipment failures could have a negative impact on the Company's business.

The Company's business is capital intensive. Its annual capital expenditures may vary due to fluctuations in requirements for maintenance, business capital, and expansion, and as a result of changes to environmental regulations that require capital for compliance. In addition, the Company's senior management and Board of directors may approve projects in the future that will require significant capital expenditures. Furthermore, while the Company regularly performs maintenance on its manufacturing equipment, key pieces of equipment in its various production processes may still need to be repaired or replaced. The costs of performing maintenance and capital work, or the failure to generate or obtain sufficient funds to enable us to maintain or upgrade our facilities as required, could have an adverse effect on our business and operations. In addition, the Company may temporarily suspend its operations at one or more of its manufacturing facilities to perform necessary maintenance or capital work. These temporary suspensions of operations could affect the Company's ability to meet customer demand in a timely manner. Any failure to meet customer demand would harm the Company's reputation and could be materially adverse to the Company.

The Company may be subject to periodic litigation which could result in unexpected expenditures of time and resources.

The Company may from time to time become party to claims and litigation proceedings, which are generally related to contract disputes and employment law. Such matters are subject to many uncertainties and the Company cannot predict with assurance the outcomes and ultimate financial impacts of them. There can be no guarantees actions that may be brought against the Company in the future will be resolved in its favour or that the insurance the Company carries will be available or paid to cover any litigation exposure. Any losses from settlements or adverse judgements arising out of these claims could be materially adverse to the Company.

The Snowflake mill is dependent on the Little Colorado River for its water requirements. The Little Colorado River Adjudication, filed in 1978, is pending in the Superior Court of Arizona, Apache County. The purpose of this adjudication is to determine the nature, extent and relative priority, if applicable, of the water rights of all claimants to the Little Colorado River system and source. There are more than 3,500 claimants, including Snowflake. Native American tribes and the United States government contend that Snowflake's withdrawal and use of water impermissibly interfere with water rights based on applicable U.S. federal law. The prior owners of Snowflake deny this contention. However, an adverse determination could restrict Snowflake's access to water and may be materially adverse to the Company.

Furthermore, securities class-action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

The Company extends trade credit to its customers and they may not pay the Company promptly or in full.

The Company extends trade credit to most of its customers to facilitate the purchase of its products. The Company relies on the creditworthiness of such customers. Some of the Company's customers operate in highly competitive, mature, cyclical or low-margin businesses. Some are highly leveraged financially or are experiencing negative cash flows such that they may need to refinance, restructure, file for bankruptcy protection or go bankrupt. Volatile capital market conditions or illiquid financial markets may result in the Company having a higher preponderance of such customers during an economic downturn. The failure of such customers to pay the Company promptly and in full under the terms of the trade credit the Company extends to them could have a material adverse effect on the Company's business, financial condition, results of operations and cash flow and its ability to satisfy its obligations under its debt.

The Company is dependent upon certain of our management personnel.

The continuity of the Company's operations is influenced strongly by its ability to attract and retain senior management with relevant industry experience. The Company's ability to retain executive officers and the current management team will continue to be important to successful implementation of business strategy. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on the Company's business and financial results.

Consumer boycotts or increases in costs due to chain-of-custody programs may adversely affect demand for the Company's products.

Some customers have become sensitive to issues related to harvesting of old growth forests and require that the Company supply products that are not produced from these forests. A growing number of customers want to purchase products that originate from sustainable managed forests, as validated by certification programs. The Company has implemented an independent chain-of-custody system to verify that select paper products at its Crofton, Elk Falls, Port Alberni and Powell River mills contain 100% certified wood fibre. However, the Company may be required to establish additional or more stringent chain-of-custody certification programs to meet its customers' demands. This may increase its costs. If the Company cannot successfully establish such programs, demand for its products may be adversely affected. Also, the Company may be the subject of organized boycotts or similar actions by environmental or other groups, which may adversely affect demand for its products.

The Company's insurance is limited and subject to exclusions.

The Company has obtained insurance coverage that it believes would ordinarily be maintained by an operator of facilities similar to its own. The insurance policies are subject to limits and exclusions. Damage to or destruction of the Company's facilities could result in claims that are excluded by its insurance policies or exceed the limits of its policies.

The Company's mills are located in seismically active areas.

Since Vancouver and the south coast of B.C. are located in a seismically active area, the Company is particularly susceptible to the risk of damage to or total destruction of four of its mills and the surrounding transportation infrastructure caused by earthquakes. Furthermore, four of the Company's mills are located directly adjacent to the ocean, and the south coast of B.C. is an area that could be susceptible to similar damage caused by tsunamis. The Company may not be insured sufficiently to cover the total amount of any losses caused by an earthquake or tsunami. In addition, the Company's insurance against losses resulting from interruptions in its operations due to damage to or destruction of these mills or to major transportation infrastructure caused by earthquakes or tsunamis or other natural events, is subject to limits and deductions that may limit the amount recoverable.

Post-retirement plan obligations may affect the Company's financial condition.

The Company maintains defined benefit pension plans and other post-retirement benefit plans for health care and life insurance. As at December 31, 2009, the underfunded liability relating to the defined benefit pension plans was $119.1 million and the underfunded liability relating to other post-retirement benefit plans was $189.3 million. Post-retirement funding requirements are dependent on various factors, including interest rates, asset returns, regulatory requirements for funding purposes, and changes to plan benefits. In 2010, the Company is required to make a contribution of $0.8 million in excess of its annual pension expense to satisfy a portion of the underfunded liability of the defined benefit pension plan. The Company expects to continue to make contributions to fund post-retirement plan obligations and to meet legal funding obligations for the defined benefit pension plan. No assurance can be made that the plans' underfunded liability will not be materially adverse to the Company in the future.

The Communications, Energy and Paperworkers Union of Canada Locals 1, 76, 592 and 686 (the "Locals"), representing hourly employees at the Powell River and Port Alberni mills, have applied to the Labour Relations Board of British Columbia for a declaration that the Company is responsible for certain post-retirement medical and extended health benefits for some retired employees who were represented by the Locals and who retired from MacMillan Bloedel Limited (now Weyerhaeuser Company Ltd.). Pacifica Paper Inc. acquired the Powell River and Port Alberni mills from MacMillan Bloedel Limited in 1998, and it was agreed as part of that transaction that MacMillan Bloedel Limited would remain responsible for any benefits for eligible employees who retired prior to the acquisition by Pacifica of the mills. The Company subsequently amalgamated with Pacifica Papers in 2001. The Locals claim that the contractual relationships between the Company, Pacifica and MacMillan Bloedel Limited do not absolve the Company (as successor to Pacifica) from any obligations which may exist in respect of these certain post-retirement benefits and that the successorship provisions of the Labour Relations Code imposed any such possible obligations on Pacifica at the time Pacifica acquired the mills. The Company does not agree with the Locals' position and will contest the Labour Board application. If the Local's application is successful, the Company could incur up to $4 million annually in additional costs. In that event, the Company will seek indemnification from Weyerhaeuser.

A change of legal control of the Company could be materially adverse to the Company.

The Company has issued and outstanding US$354.2 million principal amount of 2011 senior notes and US$250 million principal amount of 2014 senior notes. On March 10, 2010, pursuant to an exchange offer by the Company, US$318.7 million of 2011 senior notes were exchanged for US$280.4 million of new 2016 senior notes, leaving US$35.5 million of 2011 senior notes outstanding. The indentures governing the notes contain covenants relating to, among other things, a "Change of Control Triggering Event" of the Company. A Change of Control Triggering Event means the occurrence of both a "Rating Decline" and a "Change of Control", as such terms are defined in the indentures. Upon the occurrence of a Change of Control Triggering Event, the Company is obligated to make an offer to purchase all outstanding notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the Change of Control Payment Date, as defined in the Indentures, and in accordance with the procedures set out in the Indentures. If a Change of Control and a Rating Decline were to occur, the Company may not have sufficient resources to fund any required repurchase of notes.

15 SENSITIVITY ANALYSIS

The Company's earnings are sensitive to fluctuations in:

PRODUCT PRICE

The Company's products are commodity-based and cyclical in nature. As a result, earnings are sensitive to price changes, with price changes on specialty printing paper grades and newsprint having the greatest effect.

FOREIGN EXCHANGE

The Company's products are primarily sold in Canada, the United States, Asia and Australasia, Latin America and Europe. The majority of sales are denominated in foreign currencies, principally the U.S. dollar. As a result, the Company is exposed to foreign currency risk on accounts receivable and future sales.

ENERGY COSTS

The Company's earnings could be significantly affected by changes in prices and terms of energy-supply contracts, as it is a significant consumer of electrical power, fossil fuels and input materials whose pricing is highly correlated to energy costs.

FIBRE

The Company's supply of fibre is subject to market influences and has some degree of variability. Fibre supply includes wood chips, logs, hog fuel and ONP.

The Company's annual EBITDA, net earnings and earnings per share are estimated to be affected by changes in product prices, foreign exchange and input costs as follows:

(In millions of dollars, except per-share amounts)	EBITDA [1]	Net earnings [2]	Earnings per share
Product prices [3]			
A US$10 per tonne change in the sales price of:			
Specialty printing papers	$ 10	$ 7	$ 0.02
Newsprint	5	4	0.01
Pulp	2	2	0.00
Foreign exchange [4]			
A US$0.01 change in the U.S. dollar relative to the Canadian dollar	$ 6	$ 4	$ 0.01
Energy cost sensitivity [5]			
A 5% change in the price of:			
Natural gas and oil – direct purchases	$ 2	$ 1	$ 0.00
Electricity – direct purchases	5	4	0.01
Coal	1	1	0.00
Fibre sensitivity [5]			
A US$5 per unit change in the price of:			
Wood chips (Bdt)	$ 7	$ 5	$ 0.01
ONP (ST)	3	2	0.00

1 EBITDA is a non-GAAP measure. Refer to Section 10, "Non-GAAP measures" for further details.

2 Based on an expected tax rate of 28.5%.

3 Based on sales of Q4 2009 annualized production and foreign exchange rate of US$0.95.

4 Based on 2009 net cash flows and a movement to US$0.96 from US$0.95 and excluding the Company's hedging program and the impact of the Company's translation of U.S. dollar-denominated debt.

5 Based on annualized Q4 2009 consumption levels and an exchange rate of US$.0.95.

16 OUTLOOK

Paper demand is expected to continue to be weak in 2010 due to reduced print advertising for the end use markets the Company serves. Conditions of excess supply across all markets in which the Company operates are expected to continue, resulting in low operating rates in 2010. As a result, prices are expected to be lower in 2010 than in 2009, and the Company anticipates that production curtailment will continue. Declining prices and volumes, combined with the expectation that the Canadian dollar will strengthen marginally in 2010 from 2009 would have a negative impact on the Company's operating and net earnings, as well as on cash flows and liquidity. Pulp markets are expected to remain strong in the first half of 2010. Prices later in the year will be affected primarily by inventory levels, the amount of Chinese pulp imports and changes to global pulp capacity.

PRODUCTION CURTAILMENT

The Company believes that the curtailment of machines or mills in a period of weak demand is the appropriate way to minimize its operating expenses and reduce fixed costs to offset the loss of revenue from lower volumes. On January 21, 2010, the Company announced the indefinite curtailment of the C1 machine at Crofton, removing 140,000 tonnes of newsprint on an annualized basis. As this curtailment significantly impacts the Company's requirements for DIP as furnish, and owing to relatively high ONP prices and constrained availability and quality of recovered paper, the Company also announced the indefinite curtailment of its paper recycling facility on January 21, 2010, removing 175,000 air-dried tonnes of DIP capacity on an annualized basis.

The table below summarizes the production curtailment anticipated by the Company in the first quarter of 2010.

Q1, 2010 FORECAST PRODUCTION CURTAILMENT

(In thousands of tonnes)	Specialty printing papers	Newsprint	Pulp	Total
Crofton [1]	–	34.4	30.7	65.1
Elk Falls [2]	37.7	92.0	–	129.7
Total	37.7	126.4	30.7	194.8

1 Curtailment includes market curtailment related to C1, which was first curtailed on December 22, 2009 and which was later curtailed indefinitely on January 21, 2010, and one line of Crofton pulp production which was indefinitely curtailed on March 8, 2009.

2 Curtailment includes market curtailment related to E1, E2, and E5, which are indefinitely curtailed.

Decisions on the specific extent of further curtailments in the first quarter and beyond will be made as required based on market conditions at the time. If the market demand for the Company's products were to recover to justify the restart of machines that are indefinitely curtailed, fibre supply would become a constraint depending on the timing, the amount of capacity involved, and the condition of lumber markets and sawmill operating rates at that time.

CAPITAL SPENDING

Capital spending for basic maintenance of business is expected to be approximately $20 million in 2010. The Company also expects to incur capital spending of approximately $18 million related to two projects that are focused on energy efficiency and cost reduction. The Company expects to fund these projects by utilizing $18 million of available Green Transformation Program credits. During 2009 and continuing into 2010, capital spending was and is expected to remain at historically low levels. The Company expects that based on current production capacity, these low levels are not sustainable over the longer term.

LIQUIDITY, DEBT MATURITIES AND COVENANTS

Liquidity at December 31, 2009 was $157.4 million, after taking into account the financial covenant to maintain excess availability above $35.0 million, and comprised cash and availability under the Company's ABL Facility. During 2009, the Company generated cash from operations of $101.4 million and free cash flow of $29.3 million, primarily in the first quarter of 2009. The Company expects capital expenditures in 2010, net of any funding received through utilizing Green Transformation Program credits, will be higher than 2009. The Company does not currently anticipate any other significant uses of cash in 2010 other than for its operations, working capital fluctuations, restructuring costs it may incur in implementing cost-reduction initiatives, costs that may be incurred related to the bond exchange, and severance payments that may become payable subject to certain contingencies as described in Section 7, "Contingent liabilities". The Company expects that interest costs will increase by approximately $4 million in 2010 from 2009 due to the higher interest rate associated with the new senior notes which were issued in exchange for the senior notes due in 2011 on March 10, 2010. Cash contributions to pension plans are expected to be approximately $11 million lower in 2010 than in 2009, as a result of changes made to pension and other post-retirement benefit plans, as well as the five-year extension the Company was granted to the period within which insolvency payments are required for certain of its defined benefit pension plans.

EBITDA in 2009 was $103.5 million; however, this will be difficult to sustain in 2010 given that the key factors impacting the Company's results are expected to remain challenging as discussed above. The Company believes its liquidity as at December 31, 2009 is sufficient to meet its requirements in 2010; however, given the uncertain outlook for the Company's products, there can be no assurance that its liquidity at December 31, 2009 will be sufficient to satisfy all foreseen and unforeseen obligations.

The Company has senior recourse debt that matures in June 2011. On March 10, 2010, the Company completed the bond exchange relating to US$318.7 million of its senior notes due in 2011 leaving US$35.5 million outstanding. The bond exchange extends the maturity of the respective senior notes to December 2016, thereby reducing the refinancing risk and uncertainty surrounding the maturity of the notes.

The maturity of the Company's long-term debt is set out in note 14, "Long-term debt" to the Company's consolidated financial statements for the year ended December 31, 2009. The Company's ABL Facility has a term to August 2013. The Company has a 50.001% interest in PREI which has non-recourse debt of $94.1 million maturing in July 2016.

The principal financial covenants on the Company's ABL Facility are (i) maintaining minimum shareholders' equity of $639.0 million as at December 31, 2009, (ii) maintaining minimum availability of $35 million, and (iii) restricting capital expenditures to 120% of the annual operating budget, with these values determined in accordance with Canadian GAAP. The Company anticipates being able to meet these financial covenants in 2010. The Company has no significant maintenance covenants attached to its other long-term debt.

For further details on the Company's financial condition, see Section 5, "Liquidity and capital resources" and note 14, "Long-term debt" to the Company's consolidated financial statements for the year ended December 31, 2009.

RESIGNATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER

On January 25, 2010, the Company's Board of directors accepted the resignation of President and Chief Executive Officer Richard Garneau, who will be leaving the Company at the end of May, 2010, for personal reasons. The Board of directors has commenced a search for a successor.

2010 KEY PRIORITIES

The Company continues to prepare for the challenges ahead by focusing on reducing fixed and operating costs, improving its product mix, and managing its liquidity and cash flows by focusing on cash conservation, debt maturities and investment in capital projects that provide long-term benefits to the Company. Key priorities in 2010 are:

- Focus on cash flows and liquidity through
  - the prudent use of capital, including limiting capital expenditures to safety needs and basic maintenance of business levels while optimizing the use of the Green Transformation Program credits; and
  - refinancing of the 2011 senior notes;
- Maintain the Company's focus on matching production to customer orders and keeping inventories at appropriate levels;
- Develop higher-value recycled-content grades at the Snowflake mill, particularly hi-brite and directory grades and continue to develop the grade mix at the B.C. mills;
- Focus on implementing initiatives to reduce operating and fixed costs through
  - implementing changes to the salaried pension and benefit plans and to retiree post-employment benefit plans;
  - identifying further opportunities to reduce fixed costs to enable the Company to more effectively manage costs during periods of production curtailment and to facilitate grade and product mix switching across machines; and
  - continuing to work with the four municipalities in B.C. in which the Company operates and with the B.C. government to reduce the municipal property tax burden to a sustainable level;
- Continue to implement plans to reduce labour costs to $80 per tonne at all mills and develop more flexible and efficient work practices; and
- Improve the safety performance at all mills, with a target LTI ratio of 1.0 and MIR ratio of 3.0.

17 DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. The evaluation was conducted under the supervision and with the participation of management, including the chief executive officer and chief financial officer, as of December 31, 2009. Based on the evaluation, the Company's chief executive officer and chief financial officer concluded that such disclosure controls and procedures – as defined in Canada by Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, and in Rules13a-15(e) and 15d-15(e) promulgated under the *United States Securities Exchange Act of 1934*, as amended (the *U.S. Exchange Act*) – are effective to ensure that information required to be disclosed by the Company in reports it files or submits under applicable Canadian and U.S. securities laws is:

(i) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Canadian and U.S. securities regulatory authorities; and

(ii) accumulated and communicated to the Company's management, including the Company's chief executive officer and chief financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

It should be noted that while the Company's disclosure controls and procedures are designed to provide a reasonable level of assurance of achieving their objectives, the Company's chief executive officer and chief financial officer do not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

There were no changes in the Company's internal control over financial reporting during the period ended December 31, 2009 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Section 404 of the United States *Sarbanes-Oxley Act*, Management Assessment of Internal Controls (Section 404), continues to require that management (a) has the responsibility for establishing and maintaining an adequate internal control structure and procedure for financial reporting, and (b) assesses and reports on the effectiveness of internal control over financial reporting annually. As of December 31, 2009, management has assessed the effectiveness of the Company's internal control over financial reporting. Based on this assessment, management has determined the Company's internal control over financial reporting was effective as of December 31, 2009, and issued Management's Report on Financial Statements and Assessment of Internal Control over Financial Statements dated March 11, 2010 to that effect.

The design and maintenance of adequate disclosure controls and procedures and internal control over financial reporting include controls, policies and procedures of the Company's Snowflake recycled newsprint mill effective from the date of acquisition, April 10, 2008. Management has limited the scope of the design and maintenance of adequate disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of PREI, a variable interest entity in which the Company is the primary beneficiary.

The Board of directors' Audit Committee, as part of its oversight role, has reviewed and recommended the approval of this MD&A to the Board of directors. The Board of directors has read and approved this MD&A. Through discussions with management, the Board of directors and the Audit Committee have satisfied themselves that management has implemented the necessary disclosure controls.

18 OUTSTANDING SHARE DATA

At March 11, 2010, the Company had 381,753,490 common shares issued and outstanding. At March 11, 2010, the Company also had 2,277,673 stock options outstanding, exercisable for 2,277,673 common shares of the Company.

Additional information about the Company including its most recent Annual Information Form is available on the Company's website at **www.catalystpaper.com**, or on the Canadian Securities Administrator's electronic filing website at **www.sedar.com**

MANAGEMENT'S RESPONSIBILITY

MANAGEMENT'S REPORT ON FINANCIAL STATEMENTS AND ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Catalyst Paper Corporation's management is responsible for the preparation, integrity and fair presentation of the accompanying consolidated financial statements and other information contained in this Annual Report. The consolidated financial statements and related notes were prepared in accordance with U.S. generally accepted accounting principles, except note 33 which sets out the significant measurement differences had these statements been prepared in accordance with generally accepted accounting principles in Canada, and reflect management's best judgments and estimates. Financial information provided elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for designing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for reporting purposes. Internal control over financial reporting include processes and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately reflect the transactions of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements and footnote disclosures;
- provide reasonable assurance that receipts and expenditures of the Company are appropriately authorized by the Company's management and directors; and
- provide reasonable assurance regarding the prevention or timely detection of an unauthorized use, acquisition or disposition of assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in condition, or that the degree of compliance with policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. Management based this assessment on the criteria for internal control over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of the Company's Board of directors.

Based on this assessment, management determined that, as of December 31, 2009, the Company's internal control over financial reporting was effective.

The Company's independent auditor which audited and reported on the Company's consolidated financial statements has also issued an auditors' report on the Company's internal control over financial reporting.

The Board of directors is responsible for satisfying itself that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, which is comprised of three non-management members of the Board of directors, provides oversight to the financial reporting process. The Audit Committee meets periodically with management, the internal auditors and the external auditors to review the consolidated financial statements, the adequacy of financial reporting, accounting systems and controls and internal and external auditing functions.

These consolidated financial statements have been audited by KPMG LLP, the independent auditors, whose report follows.

Richard Garneau
President and Chief Executive Officer

Brian Baarda
Vice-President, Finance and Chief Financial Officer

Vancouver, Canada
March 11, 2010

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Shareholders of Catalyst Paper Corporation

We have audited the consolidated balance sheets of Catalyst Paper Corporation ("the Company") as at December 31, 2009 and 2008 and the consolidated statements of earnings (loss), comprehensive income (loss), equity and cash flows for each of the years in the three-year period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted accounting standards and with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009 in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Vancouver, Canada

March 11, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING UNDER STANDARDS OF THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (UNITED STATES)

To the Shareholders and Board of directors of Catalyst Paper Corporation

We have audited Catalyst Paper Corporation's ("the Company") internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Financial Statements and Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

We also have conducted our audits on the consolidated financial statements in accordance with Canadian generally accepted auditing standards and with the standards of the Public Company Accounting Oversight Board (United States). Our report dated March 11, 2010, expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants
Vancouver, Canada

March 11, 2010

CONSOLIDATED BALANCE SHEETS

As at December 31,
(In millions of Canadian dollars)

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	**$ 83.1**	$ 5.0
Accounts receivable (note 8)	**101.5**	221.7
Inventories (note 9)	**178.3**	211.4
Prepaids and other (note 10)	**25.2**	32.8
	388.1	470.9
Property, plant and equipment (note 11)	**1,664.7**	1,854.4
Other assets (note 12)	**38.0**	65.0
	$ 2,090.8	$ 2,390.3
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	**$ 173.3**	$ 269.4
Current portion of long-term debt (note 14)	**1.0**	75.8
	174.3	345.2
Long-term debt (note 14)	**774.6**	894.1
Employee future benefits (note 15)	**294.6**	263.2
Other long-term obligations (note 16)	**13.4**	13.3
Future income taxes (note 17)	**22.8**	49.3
Deferred credits (note 18)	**15.5**	18.6
	1,295.2	1,583.7
Equity		
Shareholders' equity		
Common stock: no par value; unlimited shares authorized; issued and outstanding: 381,753,490 shares (2008 – 381,753,490 shares)	**1,035.0**	1,035.0
Preferred stock: par value determined at time of issue; authorized 100,000,000 shares; issued and outstanding: nil shares	**–**	–
Additional paid-in capital	**16.4**	14.6
Deficit	**(185.1)**	(180.7)
Accumulated other comprehensive income (loss) (note 19)	**(52.7)**	(46.4)
	813.6	822.5
Non-controlling interest (deficit)	**(18.0)**	(15.9)
	795.6	806.6
	$ 2,090.8	$ 2,390.3

Commitments, Guarantees and Indemnities and Contingent Liabilities (notes 28, 29, and 30)
Subsequent Event (note 31)

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board:

Richard Garneau
Director

Thomas S. Chambers
Director

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

Years ended December 31,

(In millions of Canadian dollars, except where otherwise stated)	**2009**	2008	2007
Sales	**$ 1,201.7**	$ 1,849.4	$ 1,714.6
Operating expenses			
Cost of sales, excluding depreciation and amortization	**1,035.5**	1,613.0	1,574.6
Depreciation and amortization	**146.6**	165.8	176.4
Selling, general and administrative	**44.8**	46.9	48.3
Restructuring (note 20)	**17.9**	30.1	64.7
Impairment (note 5)	**17.4**	151.0	–
	1,262.2	2,006.8	1,864.0
Operating earnings (loss)	**(60.5)**	(157.4)	(149.4)
Interest expense, net (note 21)	**(69.3)**	(75.0)	(70.7)
Gain on cancellation of long-term debt (note 14)	**30.7**	–	–
Foreign exchange gain (loss) on long-term debt	**75.3**	(82.2)	103.9
Other income (expense), net (note 22)	**(9.4)**	4.9	(15.3)
Earnings (loss) before income taxes	**(33.2)**	(309.7)	(131.5)
Income tax recovery (note 17)	**(27.6)**	(90.7)	(95.1)
Net earnings (loss)	**(5.6)**	(219.0)	(36.4)
Net (earnings) loss attributable to non-controlling interest (note 6)	**1.2**	(0.8)	(0.1)
Net earnings (loss) attributable to the Company	**$ (4.4)**	$ (219.8)	$ (36.5)
Basic and diluted net earnings (loss) per share attributable to the Company's common shareholders (note 23) (in dollars)	**$ (0.01)**	$ (0.65)	$ (0.17)
Weighted average number of the Company's common shares outstanding (in millions)	**381.8**	336.1	214.7

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31,
(In millions of Canadian dollars)

	2009	2008	2007
Net earnings (loss)	**$ (5.6)**	$ (219.0)	$ (36.4)
Other comprehensive income (loss), net of taxes:			
Employee future benefits liability adjustment, net of taxes of $9.9 million (2008 – $8.1 million; 2007 – $2.2 million)	**(26.2)**	22.8	(5.8)
Reclassification of amortization of employee future benefits, net of taxes of $2.5 million (2008 – $3.6 million; 2007 – $5.1 million)	**6.8**	10.3	13.9
Unrealized net gain (loss) on cash flow revenue hedges, net of taxes of $6.0 million (2008 – $11.1 million; 2007 – $13.8 million)	**14.5**	(25.0)	28.4
Reclassification of net (gain) loss on cash flow revenue hedges, net of taxes of $2.1 million (2008 – $0.1 million; 2007 – $7.3 million)	**4.8**	(0.2)	(14.1)
Foreign currency translation adjustment, net of related hedging activities, net of taxes of $4.4 million (2008 – $4.6 million)	**(5.6)**	6.7	–
Unrealized loss on interest rate hedges, net of taxes of $0.4 million	**(1.2)**	–	–
Other comprehensive income (loss), net of taxes	**(6.9)**	14.6	22.4
Total comprehensive income (loss)	**(12.5)**	(204.4)	(14.0)
Comprehensive (income) loss attributable to non-controlling interest:			
Net (earnings) loss	**1.2**	(0.8)	(0.1)
Other comprehensive loss, net of taxes of $0.2 million	**0.6**	–	–
Comprehensive (income) loss attributable to non-controlling interest	**1.8**	(0.8)	(0.1)
Comprehensive income (loss) attributable to the Company	**$ (10.7)**	$ (205.2)	$ (14.1)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF EQUITY

(In millions of Canadian dollars)	Equity attributable to the Company						
	Common stock		Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Non-controlling interest (deficit)	Total
	Number of shares	$					
Balance as at December 31, 2006	214,604,120	$ 913.6	$ 9.3	$ 75.6	$ (83.4)	$ (15.6)	$ 899.5
Stock option compensation expense	–	–	3.2	–	–	–	3.2
Stock options exercised	80,009	0.3	(0.4)	–	–	–	(0.1)
Net earnings (loss)	–	–	–	(36.5)	–	0.1	(36.4)
Distributions to non-controlling interest	–	–	–	–	–	(0.6)	(0.6)
Other comprehensive income (loss), net of taxes	–	–	–	–	22.4	–	22.4
Balance as at December 31, 2007	214,684,129	$ 913.9	$ 12.1	$ 39.1	$ (61.0)	$ (16.1)	$ 888.0
Issue of common shares on rights offering, net of share issue costs (note 7)	167,069,361	121.1	–	–	–	–	121.1
Stock option compensation expense	–	–	2.5	–	–	–	2.5
Net earnings (loss)	–	–	–	(219.8)	–	0.8	(219.0)
Distributions to non-controlling interest	–	–	–	–	–	(0.6)	(0.6)
Other comprehensive income (loss), net of taxes	–	–	–	–	14.6	–	14.6
Balance as at December 31, 2008	381,753,490	$ 1,035.0	$ 14.6	$ (180.7)	$ (46.4)	$ (15.9)	$ 806.6
Stock option compensation expense	–	–	**1.8**	–	–	–	**1.8**
Net earnings (loss)	–	–	–	**(4.4)**	–	**(1.2)**	**(5.6)**
Distributions to non-controlling interest	–	–	–	–	–	**(0.3)**	**(0.3)**
Other comprehensive income (loss), net of taxes	–	–	–	–	**(6.3)**	**(0.6)**	**(6.9)**
Balance as at December 31, 2009	**381,753,490**	**$ 1,035.0**	**$ 16.4**	**$ (185.1)**	**$ (52.7)**	**$ (18.0)**	**$ 795.6**

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,
(In millions of Canadian dollars)

	2009	2008	2007
Cash flows provided (used) by:			
Operations			
Net earnings (loss)	**$ (5.6)**	$ (219.0)	$ (36.4)
Items not requiring (providing) cash			
Depreciation and amortization	**146.6**	165.8	176.4
Impairment (note 5)	**17.4**	151.0	–
Future income taxes (note 17)	**(26.6)**	(92.4)	(95.8)
Foreign exchange loss (gain) on long-term debt	**(75.3)**	82.2	(103.9)
Gain on cancellation of long-term debt (note 14)	**(30.7)**	–	–
Employee future benefits, expense over cash contributions	**4.3**	2.9	6.7
Increase (decrease) in other long-term obligations	**(0.5)**	(5.1)	7.5
Loss (gain) on disposal of property, plant and equipment	**3.9**	(0.4)	13.6
Lower of cost or market write-down of inventories	**5.3**	12.3	2.6
Derivative financial instruments	**(22.0)**	18.4	(24.4)
Other	**(10.8)**	(2.5)	2.7
Changes in non-cash working capital			
Accounts receivable	**120.2**	(7.4)	64.2
Inventories	**39.9**	21.5	7.4
Prepaids and other	**0.8**	3.6	(5.0)
Accounts payable and accrued liabilities	**(65.5)**	(52.8)	(18.3)
	95.4	(35.1)	48.3
Cash flows provided (used) by operations	**101.4**	78.1	(2.7)
Investing			
Acquisition of Snowflake newsprint mill (note 7)	**–**	(172.2)	–
Additions to property, plant and equipment	**(11.5)**	(41.9)	(85.8)
Proceeds from sale of property, plant and equipment	**4.5**	2.2	6.5
Proceeds from termination of interest rate swaps	**–**	7.6	–
Decrease (increase) in other assets	**4.1**	(1.0)	(4.4)
Cash flows used by investing activities	**(2.9)**	(205.3)	(83.7)
Financing			
Issue of shares, net of share issue costs (note 7)	**–**	121.1	–
Increase (decrease) in revolving loan and loan payable	**(45.6)**	60.1	47.0
Repayment of revolving operating loan	**–**	(47.1)	–
Repayment of long-term debt (note 14)	**(75.7)**	–	–
Proceeds from long-term debt (note 14)	**95.0**	–	–
Proceeds on termination of debt foreign currency contracts	**34.7**	–	–
Settlement on purchase of debt securities (note 14)	**(26.9)**	–	–
Deferred financing costs	**(0.9)**	(5.5)	–
Increase (decrease) in other long-term debt	**(1.0)**	3.6	3.6
Issue of shares from exercise of stock options	**–**	–	0.3
Cash flows provided (used) by financing activities	**(20.4)**	132.2	50.9
Cash and cash equivalents, increase (decrease) in the year	**78.1**	5.0	(35.5)
Cash and cash equivalents, beginning of year	**5.0**	–	35.5
Cash and cash equivalents, end of year	**$ 83.1**	$ 5.0	$ –
Supplemental disclosures:			
Income taxes paid	**$ 0.5**	$ 0.8	$ 0.5
Net interest paid	**66.5**	74.4	67.8

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BUSINESS SEGMENTS

Year ended December 31, 2009 (In millions of Canadian dollars)	Specialty printing papers	Newsprint	Pulp	Corporate adjustments	Consolidated
Sales to external customers	**$ 815.3**	**$ 317.7**	**$ 68.7**	**$ –**	**$ 1,201.7**
Inter-segment sales	**–**	**–**	**13.4**	**(13.4)**	**–**
Restructuring (note 20)	**11.7**	**3.0**	**3.2**	**–**	**17.9**
Depreciation and amortization	**93.8**	**44.5**	**8.3**	**–**	**146.6**
Impairment (note 5)	**–**	**17.4**	**–**	**–**	**17.4**
Operating earnings (loss)	**25.5**	**(72.7)**	**(13.3)**	**–**	**(60.5)**
Total assets	**1,291.3**	**574.3**	**207.8**	**17.4**	**2,090.8**
Additions to property, plant and equipment	**5.8**	**5.2**	**0.5**	**–**	**11.5**

Year ended December 31, 2008 (In millions of Canadian dollars)	Specialty printing papers	Newsprint	Pulp	Corporate adjustments	Consolidated
Sales to external customers	$ 1,000.9	$ 463.9	$ 384.6	$ –	$ 1,849.4
Inter-segment sales	–	–	36.8	(36.8)	–
Restructuring (note 20)	10.6	4.1	15.4	–	30.1
Depreciation and amortization	100.6	37.3	27.9	–	165.8
Impairment (note 5)	11.9	2.4	136.7	–	151.0
Operating earnings (loss)	27.0	3.6	(188.0)	–	(157.4)
Total assets	1,366.5	685.9	280.7	57.2	2,390.3
Additions to property, plant and equipment	24.2	15.1	2.6	–	41.9

Year ended December 31, 2007 (In millions of Canadian dollars)	Specialty printing papers	Newsprint	Pulp	Corporate adjustments	Consolidated
Sales to external customers	$ 919.6	$ 338.0	$ 457.0	$ –	$ 1,714.6
Inter-segment sales	–	–	45.3	(45.3)	–
Restructuring (note 20)	42.2	12.9	9.6	–	64.7
Depreciation and amortization	101.3	33.2	41.9	–	176.4
Operating earnings (loss)	(75.1)	(56.9)	(17.4)	–	(149.4)
Total assets	1,293.8	656.0	468.2	20.3	2,438.3
Additions to property, plant and equipment	42.8	32.4	10.6	–	85.8

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED GEOGRAPHIC BUSINESS SEGMENTS

Year ended December 31, 2009 (In millions of Canadian dollars)	Specialty printing papers	Newsprint	Pulp	Total
Sales by shipment destination:				
Canada	**$ 106.9**	**$ 40.3**	**$ 0.3**	**$ 147.5**
United States	**641.2**	**188.0**	**3.0**	**832.2**
Asia and Australasia	**26.3**	**40.4**	**47.6**	**114.3**
Latin America	**36.8**	**48.3**	**1.0**	**86.1**
Europe and other	**4.1**	**0.7**	**16.8**	**21.6**
	$ 815.3	**$ 317.7**	**$ 68.7**	**$ 1,201.7**

Year ended December 31, 2008 (In millions of Canadian dollars)	Specialty printing papers	Newsprint	Pulp	Total
Sales by shipment destination:				
Canada	$ 138.0	$ 58.8	$ 12.6	$ 209.4
United States	764.6	261.8	50.6	1,077.0
Asia and Australasia	28.2	71.7	191.6	291.5
Latin America	69.9	70.6	29.5	170.0
Europe and other	0.2	1.0	100.3	101.5
	$ 1,000.9	$ 463.9	$ 384.6	$ 1,849.4

Year ended December 31, 2007 (In millions of Canadian dollars)	Specialty printing papers	Newsprint	Pulp	Total
Sales by shipment destination:				
Canada	$ 121.0	$ 60.7	$ 14.5	$ 196.2
United States	712.2	145.7	47.0	904.9
Asia and Australasia	22.7	67.8	242.2	332.7
Latin America	59.9	61.6	36.7	158.2
Europe and other	3.8	2.2	116.6	122.6
	$ 919.6	$ 338.0	$ 457.0	$ 1,714.6

As at December 31,	**2009**	2008
Property, plant and equipment by geographic location:		
Canada	**$ 1,492.8**	$ 1,645.0
United States	**171.9**	209.4
	$ 1,664.7	$ 1,854.4

The accompanying notes are an integral part of the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

1. NATURE OF OPERATIONS

Catalyst Paper Corporation, together with its subsidiaries and partnerships (collectively, the "Company") is a significant specialty mechanical printing papers and newsprint producer in North America. The Company operates in three business segments.

Specialty printing papers	• Manufacture and sale of mechanical specialty printing papers
Newsprint	• Manufacture and sale of newsprint
Pulp	• Manufacture and sale of long-fibre Northern Bleached Softwood Kraft ("NBSK") pulp (prior to November 18, 2008, pulp segment included manufacture of short-fibre NBSK pulp and white top linerboard)

The Company manages its business based on the products that it manufactures and sells to customers. Five manufacturing facilities, including a paper recycling facility, are located in the province of British Columbia ("B.C."), Canada and one manufacturing facility is located in Arizona, U.S.A. Inter-segment sales consist of pulp transfers at cost.

The primary market for the Company's paper products is North America. The primary markets for the Company's pulp products are Asia and Australasia, and Europe.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Effective for the year ended December 31, 2009, the Company has chosen to adopt U.S. generally accepted accounting principles ("U.S. GAAP") for the presentation of its consolidated financial statements for Canadian and United States reporting requirements. Historically, the Company has presented its annual and interim consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") with reconciliation in its annual consolidated financial statements to U.S. GAAP for material recognition, measurement and presentation differences. As a result of this transition to U.S. GAAP, the Company has presented its 2009 annual audited consolidated financial statements in accordance with U.S. GAAP and included a reconciliation to Canadian GAAP for material recognition, measurement and presentation differences in note 33, "Reconciliation of United States and Canadian Generally Accepted Accounting Principles." Canadian GAAP will change over to International Financial Reporting Standards ("IFRS") effective for public companies for periods beginning January 1, 2011. The decision to adopt U.S. GAAP has been approved by the Company's Board of directors after due consideration of benefits and disadvantages of reporting under U.S. GAAP versus IFRS.

(a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and, from their respective dates of acquisition of control or formation, its wholly-owned subsidiaries and partnerships. In addition, the consolidated financial statements include the accounts of the Company's joint venture, Powell River Energy Inc. ("PREI"), a variable interest entity. All inter-company transactions and amounts have been eliminated on consolidation.

(b) Variable Interest Entities

Variable interest entities ("VIE") are entities in which equity investors do not have a controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. The Company consolidates the accounts of VIEs where it has been determined that the Company is the primary beneficiary, defined as the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity's expected losses.

(c) Use of Estimates

The consolidated financial statements have been prepared in conformity with U.S. GAAP, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. On an ongoing basis, management reviews its estimates, including those related to inventory obsolescence, estimated useful lives of assets, environmental and legal liabilities, impairment of long-lived assets, derivative financial instruments, pension and post-retirement benefits, bad debt and doubtful accounts, income taxes, restructuring costs, and commitment and contingencies, based on currently available information. Actual amounts could differ from estimates.

(d) Going Concern

Under U.S. GAAP, the Company is required to assess its ability to continue as a going concern or whether substantial doubt exists as to the Company's ability to continue as a going concern into the foreseeable future. The Company has forecasted its cash flows for the next 12 months and although the current economic environment is difficult, the Company believes that it has adequate liquidity in cash and available borrowings under its credit facilities to finance its operations without support from other parties over the next year. Thus, the Company has concluded that substantial doubt does not exist as to the Company's ability to continue as a going concern over the next fiscal year.

The Company's 8.625% senior notes of US$354.2 million are due June 15, 2011. Subsequent to year-end, the Company exchanged 89.96% of these senior notes for new senior secured notes. Refer to note 31, "Subsequent event" for additional details.

(e) Revenue Recognition

The Company recognizes revenues upon shipment when persuasive evidence of an arrangement exists, prices are fixed or determinable, title of ownership has transferred to the customer and collection is reasonably assured. Sales are reported net of discounts, allowances and rebates.

(f) Shipping and Handling Costs

The Company classifies shipping and handling costs to "Cost of sales, excluding depreciation and amortization" as incurred.

(g) Translation of Foreign Currencies

The majority of the Company's sales are denominated in foreign currencies, principally U.S. dollars. Revenue and expense items denominated in foreign currencies are translated at exchange rates prevailing during the period. Monetary assets and liabilities denominated in foreign currencies are translated at the period-end exchange rates. Non-monetary assets and liabilities are translated at exchange rates in effect when the assets are acquired or the obligations are incurred. Foreign exchange gains and losses are reflected in net earnings (loss) for the period.

The Company has a foreign subsidiary that is considered to be self-contained and integrated within its foreign jurisdiction, and accordingly, uses U.S. dollar as its functional currency. The foreign exchange gains and losses arising from the translation of the foreign subsidiary's accounts into Canadian dollars are reported as a component of other comprehensive income (loss), as discussed in note 19, "Accumulated Other Comprehensive Income (Loss)."

(h) Derivative Financial Instruments

The Company uses derivative financial instruments in the management of foreign currency and price risk associated with its revenues, energy costs and long-term debt. It also uses interest rate swaps to manage its net exposure to interest rate changes. The Company's policy is to use derivatives for managing existing financial exposures and not for trading or speculative purposes. The Company accounts for its derivatives at fair value at each balance sheet date.

The Company designates the hedge relationship and formally documents at its inception, the particular risk management objective and strategy, the specific asset, liability or cash flow being hedged, as well as how effectiveness is assessed. Risk management strategies and relationships are assessed on an on-going basis to ensure each derivative instrument is effective in accomplishing the objective of offsetting either changes in the fair value or cash flow attributable to the exposure being hedged both at inception and over the term of the hedging relationship.

In a fair value hedge, hedging instruments are carried at fair value, with changes in fair value recognized in the consolidated statement of earnings (loss). The changes in fair value of the hedged item attributable to the hedged risk is also recorded in the consolidated statement of earnings (loss) by way of a corresponding adjustment of the carrying amount of the hedged items recognized on the balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

In a cash flow hedge, the changes in fair value of derivative financial instruments are recorded in "Other comprehensive income (loss)". These amounts are reclassified in the consolidated statement of earnings (loss) in the periods in which results are affected by the cash flows of the hedged item. Any hedge ineffectiveness is recorded in the consolidated statement of earnings (loss) when incurred.

In hedges of the foreign currency exposure of net investments in foreign subsidiaries that are self-contained and integrated within a particular country, gains and losses on translation are deferred in a separate component of shareholders' equity to be recognized in net earnings upon sale or upon complete or substantially complete liquidation of the net investment in the foreign subsidiary.

Cash flows from derivative financial instruments for which hedge accounting does not apply are classified, in general, to "Operations" on the consolidated statement of cash flows consistent with the hedged transaction. Cash flows resulting from termination of interest rate swaps are classified as "Investing activities".

(i) Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of less than three months and are presented at fair value.

(j) Inventories

Specialty printing papers, newsprint and pulp inventories are valued at the lower of three month moving average cost or market. Wood chips, pulp logs and other raw materials are valued at the lower of cost or market. For raw materials to be used in the production of finished goods, market is determined on an as-converted-to-finished-goods basis. Work-in-progress and operating and maintenance supplies and spare parts inventories are valued at cost. Cost is defined as all costs that relate to bringing the inventory to its present condition and location under normal operating conditions and includes manufacturing costs, such as raw materials, labour and production overhead, and depreciation and amortization costs. In addition, cost includes freight costs to move inventory off-site.

(k) Repairs and Maintenance Costs

Repairs and maintenance, including costs associated with planned major maintenance, are charged to "Cost of sales, excluding depreciation and amortization" as incurred.

(l) Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization, including asset impairment charges. Interest costs for capital projects are capitalized. Buildings, machinery and equipment are generally amortized on a straight-line basis at rates that reflect estimates of the economic lives of the assets. The rates for major classes of assets based on the estimated remaining economic lives are:

Buildings	2.5% – 5.0%
Paper machinery and equipment	5.0% – 10.0%
Pulp machinery and equipment	10.0% – 20.0%

During periods of major production interruption on assets with economic lives greater than five years, an obsolescence amount of 50% of normal depreciation is charged on manufacturing machinery and equipment.

No depreciation is charged on capital projects during the period of construction. Start-up costs incurred in achieving normal operating capacity on major capital projects are expensed as incurred.

Leasehold improvements are normally amortized over the lesser of their expected average service life and the term of the lease.

When property, plant and equipment are sold by the Company, the historical cost less accumulated depreciation and amortization is netted against the sale proceeds and the difference is included in "Other income (expense), net."

(m) Impairment of Long-lived Assets

Long-lived assets are tested for recoverability when events or changes in circumstances indicate their carrying value may not be recoverable. A long-lived asset is potentially not recoverable when its carrying value is greater than the sum of the undiscounted cash flows expected to result from its use and eventual disposition. The impairment loss, if any, is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value.

(n) Environmental Costs

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. Expenditures that prevent future environmental contamination are capitalized as part of "Property, plant and equipment", and depreciation and amortization is subsequently charged to earnings over the estimated future benefit period of the assets. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded on an undiscounted basis when rehabilitation efforts are likely to occur and the costs can be reasonably estimated.

(o) Asset Retirement Obligations

Asset retirement obligations are recognized at fair value in the period in which the Company incurs a legal obligation associated with the retirement of an asset. The associated costs are capitalized as part of the carrying value of the related asset and amortized over its remaining useful life. The liability is accreted using a credit-adjusted risk-free interest rate.

The Company's obligations for the proper removal and disposal of asbestos products in its mills meet the definition of a conditional asset retirement obligation. That is, the Company is subject to regulations that are in place to ensure that asbestos fibres do not become friable, or loose. The regulations require that friable asbestos be repaired or removed in accordance with the regulations.

The Company's asbestos can generally be found on steam and condensate piping systems throughout its facilities, as well as in transite cladding on buildings and in building insulation. As a result of the longevity of the Company's mills, due in part to the Company's maintenance procedures, and the fact that the Company does not have plans for major changes that would require the removal of asbestos, the timing of the removal of asbestos in the Company's mills is indeterminate. As a result, the Company is currently unable to estimate the fair value of its asbestos removal and disposal obligation.

(p) Deferred Financing Costs

Deferred costs related to the Company's long-term debt are included in "Other assets" and amortized using the effective interest rate method over the legal life of the related liability. Financing costs associated with modifications of long-term debt are expensed as incurred.

(q) Stock-based Compensation and Other Stock-based Payments

Stock options and restricted share units granted to the Company's key officers, directors and employees are accounted for using the fair value-based method. Under this method, compensation cost is measured at fair value at the date of grant, and is expensed over the award's vesting period. Any consideration paid by plan participants on the exercise of share options or the purchase of shares is credited to "Common stock" together with any related stock-based compensation expense. Performance and time based share-based payments are amortized over their vesting periods when it is probable that the performance conditions will be satisfied.

Deferred share units are accounted for using the quoted market value at each reporting period until settlement, and are amortized over their vesting periods.

(r) Income Taxes

Income taxes are accounted for using the asset and liability method. Future income tax assets and liabilities are based on temporary differences (differences between the accounting basis and the tax basis of the assets and liabilities) and non-capital loss carry-forwards and are measured using the enacted tax rates and laws expected to apply when these differences reverse. Future tax benefits, including non-capital loss carry-forwards, are recognized to the extent that realization of such benefits is considered more likely than not. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the period that enactment occurs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

(s) Deferred Credits

Deferred credits represent the excess of amounts assigned to future income tax assets for tax losses acquired in other than business combinations over the consideration paid. Deferred credits are amortized to "Income tax recovery" in the consolidated statement of earnings (loss) during the period that the acquired tax asset is utilized.

(t) Employee Future Benefits

The Company maintains pension benefit plans for all salaried employees which include defined benefit and defined contribution segments. The Company also sponsors other post-retirement benefit plans, covering heath and dental benefits. The Company recognizes assets or liabilities for the respective overfunded or underfunded statuses of its defined benefit pension plans and other post-retirement benefit plans on its consolidated balance sheet. Changes in the funding statuses that have not been recognized in the Company's net periodic benefit costs are reflected in "Other comprehensive income (loss)" in the Company's consolidated balance sheet. Net periodic benefit costs are recognized as employees render the services necessary to earn the pension and other post-retirement benefits.

The estimated cost for pensions and other employee future benefits provided to employees by the Company is accrued using actuarial techniques and assumptions during the employees' active years of service. The net periodic benefit cost includes:

- the cost of benefits provided in exchange for employees' services rendered during the year;
- the interest cost of benefit obligations;
- the expected long-term return on plan assets based on the fair value for all asset classes;
- gains or losses on settlements or curtailments;
- the straight-line amortization of prior service costs and plan amendments included in accumulated other comprehensive income ("AOCI") over the average remaining service period of the active employee group covered by the plans as of the date such costs are first recognized, unless all, or almost all, of the employees are no longer active, in which case such costs are amortized over the average life expectancy of the former employees (amortized over 5 years for periods prior to December 31, 2008); and
- the straight-line amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year over the average remaining service period of the active employee group covered by the plans, unless all, or almost all, of the employees are no longer active, in which case such costs are amortized over the average life expectancy of the former employees (amortized over 5 years for periods prior to December 31, 2008).

The defined benefit plan obligations are determined in accordance with the projected benefit method, prorated on services.

Amounts paid to the Company's defined contribution plans for salaried employees and to multi-employer industry-wide pension plans are expensed as incurred.

(u) Earnings Per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) attributable to the Company for the period by the weighted average number of Company common shares outstanding during the reporting period. Diluted earnings (loss) per share is computed using the treasury stock method. When the effect of options and other securities convertible into common shares is anti-dilutive, including when the Company has incurred a loss for the period, basic and diluted loss per share are the same.

(v) Comparative Figures

Comparative figures disclosed in the consolidated financial statements have been reclassified to conform with the presentation adopted for the current year.

3. RECENTLY IMPLEMENTED ACCOUNTING STANDARDS

In July 2009, the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") became the single source of authoritative U.S. GAAP for non-governmental entities. The ASC eliminated the prior U.S. GAAP hierarchy which consisted of four levels, including FASB statements, interpretations, and staff positions, Accounting Principles Board opinions and other literature. The ASC hierarchy consists of two levels, authoritative literature, and non-authoritative literature. The ASC does not change GAAP, rather, it is designed to simplify access to and research on authoritative GAAP. The authority of the rules and interpretive releases of the Securities Exchange Commission have not changed as a result of the implementation of the ASC. The ASC is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted the FASB ASC in the preparation of these annual consolidated financial statements.

In May 2009, the FASB issued a new Subsequent Events Topic in the ASC, which establishes general standards of accounting for and disclosure of subsequent events. The Topic is based on the same principles as those that currently exist in the auditing standards and requires disclosure of the date through which an entity has evaluated subsequent events and is effective for interim or annual financial periods ending after June 15, 2009. The Company adopted the disclosure requirements of this Topic in the preparation of these annual consolidated financial statements.

In December 2008, the FASB amended the Compensation-Retirement Benefits Topic of the ASC. The amendments provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other post-retirement plan and require disclosures surrounding how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies. Additional disclosures include: (a) the major categories of plan assets; (b) the inputs and valuation techniques used to measure the fair value of plan assets; and (c) the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period and the significant concentrations of risk within plan assets. The disclosures are effective for fiscal years ending after December 15, 2009. Upon initial application, the amendments to this Topic are not required for earlier periods that are presented for comparative purposes. The Company adopted the disclosure requirements of this Topic in the preparation of these annual consolidated financial statements.

In March 2008, the FASB amended the Derivatives and Hedging Topic of the ASC. The amendments expand quarterly disclosure requirements about an entity's derivative instruments and hedging activities. The amendments are effective for fiscal years beginning after November 15, 2008. The Company adopted the disclosure requirements of this Topic in the preparation of these annual consolidated financial statements.

In February 2008, the FASB amended the Fair Value Measurements and Disclosures Topic of the ASC, delaying its effective date to fiscal years beginning after November 15, 2008 for all non-recurring fair value measurements of non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. This Topic establishes a single definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The Company adopted the requirements related to the non-recurring fair value measurements of non-financial assets and liabilities for year ended December 31, 2009 and the adoption had no impact on the Company's consolidated financial statements or disclosures.

In December 2007, the FASB amended the Consolidation Topic of the ASC as it relates to the presentation and disclosure for entities that have equity investments that are not attributable directly to the parent, called non-controlling interests or minority interests. The amendments establish where and how to report non-controlling interests in the consolidated balance sheet and statement of earnings (loss), how to account for changes in non-controlling interests and provides disclosure requirements. The amendments are effective for fiscal years beginning on or after December 15, 2008. The Company adopted the amendments in the preparation of these annual consolidated financial statements.

In December 2007, the FASB amended the Consolidation Topic of the ASC. The amendments establish how an entity accounts for identifiable assets acquired, liabilities assumed, and any non-controlling interests acquired, how to account for goodwill acquired and determines what disclosures are required as part of a business combination. The amendments apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this standard had no impact on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

4. CHANGES IN FUTURE ACCOUNTING STANDARDS

In June 2009, the FASB further amended the Consolidation Topic of the ASC, as it relates to the consolidation of VIEs. The amendments change how an entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. Qualified special-purpose entities will no longer be exempt from consolidation requirements. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The amendments to this Topic become effective on January 1, 2010. The Company is currently assessing the impact that the amendments will have on its consolidated financial statements or disclosures.

5. MEASUREMENT UNCERTAINTY – IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews long-lived assets, primarily plant and equipment, for impairment when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The Company tests for impairment using a two-step methodology as follows:

(i) determine whether the projected undiscounted future cash flows from operations exceed the net carrying amount of the assets as of the assessment date; and

(ii) if assets are determined to be impaired in step (i), then such impaired assets are written down to their fair value, determined principally by using discounted future cash flows expected from their use and eventual disposition.

Estimates of future cash flows and fair value require judgments, assumptions and estimates and may change over time. Due to the variables associated with judgments and assumptions used in these tests, the precision and accuracy of estimates of impairment charges are subject to significant uncertainties and may change significantly as additional information becomes known. The carrying value of long-lived assets represented approximately 80% of total assets as at December 31, 2009. If future developments were to differ adversely from management's best estimate of key assumptions and associated cash flows, the Company could potentially experience future material impairment charges.

During the fourth quarter of 2009, as a result of the severity of the decline in demand for the Company's products, the Company conducted step (i) impairment test on its paper and pulp assets. Estimates of future cash flows used to test the recoverability of long-lived assets included key assumptions related to foreign exchange rates, forecast product prices, market supply and demand, estimated useful life of the long-lived assets, production levels, production costs, inflation, weighted average cost of capital, and capital spending. The assumptions are derived from information generated internally, independent industry research firms, and other external published reports and forecasts. The useful life of the Company's assets was estimated at 20 years for paper assets and 10 years for pulp assets. Product sales prices and foreign exchange assumptions for 2010 of CDN$1.00 = US$0.95 were based on management's best estimates incorporating independent market information as well as analysis of historical data, trends and cycles. Product sales prices and foreign exchange assumptions for years 2011 to 2013 were based on forecasts prepared by Resource Information Systems Inc., an independent external firm. The foreign exchange assumption was CDN$1.00 = US$0.93 in 2011 declining to CDN$1.00 = US$0.89 by 2013. Product sales prices and foreign exchange rate assumptions for 2014 and subsequent years were estimated by management based on long-term trend pricing for product sales prices and a long-term expected foreign exchange rate of CDN$1.00 = US$0.88. Step (i) of the impairment test demonstrated that an impairment charge for the pulp and paper assets was not required as the estimated undiscounted cash flows exceeded the carrying values.

The Company's Elk Falls No. 1 paper machine ("E1") has been curtailed since September 2007 and its Elk Falls paper machines No. 2 and No. 5 have been indefinitely curtailed since February 23, 2009. The demand outlook for newsprint and directory paper remains weak and on January 21, 2010, the Company announced that its Crofton No. 1 paper machine would be indefinitely curtailed. The Company's paper recycling facility in Coquitlam, B.C., which supplies the Crofton paper machines with de-inked pulp, was also indefinitely shutdown in mid-February 2010. The Company has accelerated depreciation on certain paper machines over the past few years in anticipation of declining North American newsprint demand. The Company expects that while demand will improve in the future over 2009 levels, it will not return to a pre-recession level and the Company will likely have excess newsprint machine capacity. As a result, the Company recorded an impairment charge of $17.4 million in the fourth quarter of 2009. The Company is in discussions with key stakeholders,

including unions and municipalities, on cost reductions across its operations. Given the marketing outlook for 2010, the Company expects cost reductions are necessary to restart the idled machines. The Company will continue to assess demand and cost conditions to determine whether improvements are sufficient to enable curtailed machines to return to production. To the extent that business conditions do not improve sufficiently in a reasonable period of time, the Company may consider a permanent shut down of its Elk Falls operations, Crofton paper operations, and paper recycling facility necessitating a further write-down in the future. As at December 31, 2009, the net book value of these assets was approximately $236 million for the Elk Falls paper mill site, approximately $195 million for the Crofton paper mill site, and approximately $70 million for Coquitlam the paper recycling facility.

The Company's pulp production at the Crofton mill was also indefinitely curtailed in March 2009 removing 403,000 tonnes of annualized pulp capacity. The restart of one of the two lines of pulp production on October 5, 2009 re-instated 222,000 tonnes of total pulp capacity on an annualized basis. The second line of pulp production at Crofton remains indefinitely curtailed. As at December 31, 2009, the net book value of the curtailed Crofton pulp mill assets was approximately $19 million.

During 2008, the Company recorded an impairment charge of $136.4 million on assets related to its Elk Falls pulp mill and white top linerboard operation, of which $129.0 million related to property, plant and equipment and $7.4 million related to supplies and spare parts inventory. The Elk Falls pulp mill and white top linerboard operation was permanently closed on November 18, 2008 as a result of the ongoing unavailability of sawdust fibre. In addition, the Company also recorded a $14.6 million asset impairment charge in 2008 on certain specific mill assets that are no longer in use or where the net realizable value has decreased due to the current weak economic environment.

6. VARIABLE INTEREST ENTITIES

The Company has a 50.0% interest in PREI and consolidates 100% of it as PREI is a VIE in which the Company is the primary beneficiary. PREI consists of an integrated hydroelectric power generating, transmission and distribution system which includes two hydroelectric stations in B.C. with installed capacity of 82 Megawatts. The Company purchases 100% of the power generated by PREI.

The Company has limited access to PREI's assets, which generally take the form of interest on loans, management fees and earnings distributions based on the Company's interest in PREI. In addition, creditors of PREI have recourse limited to the assets in PREI. Condensed financial information with respect to PREI is as follows:

Years ended December 31,	**2009**	2008	2007
Condensed statements of earnings (loss)			
Sales – affiliate [1]	**$ 16.7**	$ 18.6	$ 19.2
Cost of sales, excluding depreciation and amortization	**6.3**	4.9	5.1
Depreciation and amortization	**3.2**	3.2	3.3
	9.5	8.1	8.4
Operating earnings	**7.2**	10.5	10.8
Interest expense	**(9.0)**	(7.7)	(8.2)
Interest expense – affiliate [1]	**(2.9)**	(2.7)	(3.1)
Other expense, net	**0.1**	0.5	(4.2)
Income tax recovery	**2.2**	1.0	4.9
Net earnings (loss)	**(2.4)**	1.6	0.2
Other comprehensive income (loss)	**(1.2)**	–	–
Total comprehensive income (loss) [2]	**$ (3.6)**	$ 1.6	$ 0.2

1 Balances with Catalyst Paper Corporation.

2 50% is included in the Company's non-controlling interest (deficit) balances.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

As at December 31,	2009	2008
Condensed balance sheets		
Current assets		
Cash and cash equivalents	**$ 5.5**	$ 1.2
Other	**2.0**	2.3
Property, plant and equipment	**112.8**	115.6
	$ 120.3	$ 119.1
Current liabilities		
Accounts payable and accrued liabilities	**$ 5.5**	$ 15.3
Current portion of long-term debt (note 14)	**–**	74.9
Long-term debt (note 14)	**112.9**	19.5
Long-term debt – affiliate [1]	**20.8**	21.5
Future income taxes	**17.1**	19.7
Equity [2]	**(36.0)**	(31.8)
	$ 120.3	$ 119.1

1 Balances with Catalyst Paper Corporation.

2 50% is included in the Company's non-controlling interest (deficit) balances.

The Company has identified one other potential VIE, but has not been able to obtain the financial information necessary to evaluate whether the entity is a VIE, or if the entity is a VIE, whether the Company is the primary beneficiary. The Company has entered into a building lease agreement with this potential VIE whereby the Company has agreed to continue making the prescribed lease payments directly to the financial institution holding the mortgage on the building in the event the lessor is no longer able to meet its contractual obligations. As at December 31, 2009, the principal amount of the mortgage was $7.9 million (2008 – $9.6 million). This agreement does not increase the Company's liability beyond the obligation under the building lease.

7. ACQUISITION OF SNOWFLAKE RECYCLE NEWSPRINT MILL

On April 10, 2008, the Company completed the acquisition of a recycled newsprint mill in Snowflake, Arizona. Cash consideration paid was $172.2 million and was financed, in part, through a rights offering resulting in the issuance of 167,069,361 Subscription Receipts and proceeds of $121.1 million, net of share issue costs. The balance of the purchase price for the acquisition was funded by drawings of $48.7 million under the Company's revolving operating facility and $2.4 million realized from the settlement of favourable foreign currency forward contracts. Under the rights offering, each holder of record of the Company's common shares as of the close of business on the record date of March 11, 2008 received one Right for each common share held. Each 1.285 Rights entitled the holder to purchase one Subscription Receipt of the Company for an exercise price of $0.75 per Subscription Receipt. Each Subscription Receipt was converted into one fully paid common share of the Company concurrent with the closing of the Snowflake acquisition.

The acquisition has been accounted for using the purchase method of accounting and the results of the Snowflake recycled newsprint mill have been included in consolidated earnings of the Company since its date of acquisition, April 10, 2008.

The following amounts have been assigned to the assets and liabilities acquired, based on an estimate of their fair value as at April 10, 2008, and are subject to revision for twelve months from the date of the acquisition:

Assets acquired	
Current assets	$ 18.1
Property, plant and equipment	172.1
Other assets	0.5
	190.7
Liabilities assumed	
Current liabilities	(18.1)
Employee future benefits	(0.4)
Fair value of net assets acquired	$ 172.2
Consideration paid	
Cash, including transaction costs	$ 172.2

The Company's Snowflake mill is self-contained and integrated within its foreign jurisdiction. Accordingly, the current rate method is used for the translation of its financial statements to Canadian dollars upon consolidation. Under this method, the assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rate in effect during the period. Exchange gains and losses arising from the current rate method of translation are deferred in a separate component of AOCI in shareholders' equity. Such gains and losses will be included in the determination of net earnings when there is a reduction in the net investment in the foreign subsidiary as a result of a complete or substantially complete liquidation on sale of the investment in the foreign subsidiary.

The Company has designated a portion of its foreign currency denominated long-term debt as an effective hedge of this foreign subsidiary. Upon translation of such debt into Canadian dollars, any gains or losses are also deferred in a separate component of AOCI in shareholders' equity to be recognized in net earnings upon sale or upon complete or substantially complete liquidation on sale of the net investment in the foreign subsidiary.

The foreign exchange translation adjustment account reflects the net changes in the respective book values of the Company's investment in Snowflake due to exchange rate fluctuations since the date of acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

8. ACCOUNTS RECEIVABLE

The components of accounts receivable at December 31 were as follows:

	2009	2008
Trade receivables	$ 98.7	$ 206.6
Less: allowance for doubtful accounts	(3.7)	(3.2)
	95.0	203.4
Sales taxes receivable	2.3	3.0
Other receivables	4.2	15.3
	$ 101.5	$ 221.7

9. INVENTORIES

The components of inventories at December 31 were as follows:

	2009	2008
Finished goods		
Specialty printing papers	$ 19.7	$ 25.6
Newsprint	11.5	8.7
Pulp	6.4	18.8
Total finished goods	37.6	53.1
Work-in-progress	0.5	1.7
Raw materials – wood chips, pulp logs and other	36.4	46.1
Operating and maintenance supplies and spare parts	103.8	110.5
	$ 178.3	$ 211.4

At December 31, 2009, the Company had applied write-downs of $1.7 million (2008 – $2.7 million) to finished goods inventory and $3.6 million (2008 – $9.6 million) to raw materials inventory.

10. PREPAIDS AND OTHER

The components of prepaids and other at December 31 were as follows:

	2009	2008
Derivative financial instruments	$ 15.9	$ 1.3
Future income tax assets (note 17)	4.8	26.2
Property taxes, insurance and licenses	1.9	2.1
Other	2.6	3.2
	$ 25.2	$ 32.8

11. PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment at December 31 were as follows:

2009	Cost	Accumulated depreciation and amortization	Net book value
Buildings and land			
Specialty printing papers and newsprint	$ 585.7	$ 292.8	$ 292.9
Pulp	100.9	88.4	12.5
Machinery and equipment			
Specialty printing papers and newsprint	2,756.6	1,528.8	1,227.8
Pulp	782.3	650.8	131.5
	$ 4,225.5	$ 2,560.8	$ 1,664.7

2008	Cost	Accumulated depreciation and amortization	Net book value
Buildings and land			
Specialty printing papers and newsprint	$ 556.4	$ 229.3	$ 327.1
Pulp	141.2	111.8	29.4
Machinery and equipment			
Specialty printing papers and newsprint	2,710.4	1,369.1	1,341.3
Pulp	862.3	705.7	156.6
	$ 4,270.3	$ 2,415.9	$ 1,854.4

At December 31, 2009, a net carrying amount of $11.3 million (2008 – $7.4 million) included in machinery and equipment is held under capital leases, $15.2 million for cost (2008 – $10.0 million) and $3.9 million for accumulated depreciation and amortization (2008 – $2.6 million).

During 2009, interest of $nil (2008 – $0.1 million) was capitalized in connection with capital projects.

During 2009, the Company recorded a $17.4 million (note 5) impairment charge against its pulp and paper assets to reflect the excess capacity in a number of its machines pursuant to high levels of indefinite curtailment. During 2008, the Company recorded $151.0 million (note 5) in asset impairment charges, of which $136.4 million related to assets at Elk Falls pulp mill and white top linerboard operations, and $14.6 million related to specific assets that were no longer in use or where the net realizable value has decreased. On a segmented basis, $136.7 million related to pulp assets, $2.5 million related to newsprint assets, and $11.8 million related to specialty printing papers assets.

12. OTHER ASSETS

The components of other assets at December 31 were as follows:

	2009	2008
Deferred financing costs	$ 10.7	$ 16.3
Deferred charges and other	9.6	13.8
Derivative financial instruments	3.1	34.7
Accrued benefit asset – pension plan (note 15)	0.2	0.2
Future income tax assets (note 17)	14.4	–
	$ 38.0	$ 65.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The components of accounts payable and accrued liabilities at December 31 were as follows:

	2009	2008
Trade payables	$ 83.2	$ 115.3
Accrued payroll and related liabilities	34.7	66.9
Property taxes	15.1	–
Accrued interest	10.8	10.9
Restructuring (note 20)	5.2	14.0
Accrued benefit obligation – pension plan (note 15)	6.7	7.7
Accrued benefit obligation – other employee future benefit plans (note 15)	7.3	6.7
Payables related to capital projects	1.2	3.1
Derivative financial instruments	–	30.2
Other	9.1	14.6
	$ 173.3	$ 269.4

14. LONG-TERM DEBT

The Company's long-term debt at December 31 was as follows:

	2009	2008
Recourse		
Senior notes, 8.625% due June 2011 (US$354.2 million; December 31, 2008 – US$400.0 million)	$ 371.6	$ 492.2
Senior notes, 7.375% due March 2014 (US$250.0 million)	265.4	311.0
	637.0	803.2
Revolving asset based loan facility of up to $330.0 million due August 2013	14.5	60.1
Capital lease obligations	11.2	12.2
	662.7	875.5
Non-recourse		
First mortgage bonds, 6.447% due July 2016	94.1	–
First mortgage bonds, 6.387% due July 2009	–	74.9
Subordinated promissory notes	18.8	19.5
	112.9	94.4
Total debt	775.6	969.9
Less: current portion	(1.0)	(75.8)
	$ 774.6	$ 894.1

During the first quarter of 2009, the Company purchased in the open market and cancelled US$45.8 million of its 8.625% senior notes, due June 2011. Cash consideration paid was $26.9 million. The Company recorded a net gain of $30.7 million (US$24.5 million) and expensed $0.5 million of deferred financing costs on the cancellation of this debt.

Borrowings under the revolving asset based loan facility ("ABL Facility") bear interest at a rate based on Canadian dollar banker's acceptance/prime or U.S. dollar LIBOR/base/prime rates, plus a margin that varies with the average excess availability on the ABL Facility. The interest rates on borrowings under the facility averaged 3.4% in 2009 (2008 – 5.8%). A fee at an applicable margin applies to the undrawn portion of the ABL Facility.

The ABL Facility provides for ongoing working capital and capital expenditure requirements as well as for general corporate purposes. Collateral provided on the $330.0 million ABL Facility consists of accounts receivable, inventories and cash of the Company as well as a first charge on the property, plant and equipment of the Company's Snowflake mill. Availability under the ABL Facility is determined by a borrowing base calculated primarily on balances of eligible accounts receivable and inventories, less certain reserves. After February 13, 2010, this may include a reserve in respect of vacation pay obligations which as at December 31, 2009 amounted to $26.2 million. The agent only has the right to impose such a reserve if excess availability, as defined in the ABL Facility, is below a threshold of $75 million (excess availability under this definition was $84.3 million at December 31, 2009). Financial covenants under the ABL Facility must be maintained based upon the Company's financial results prepared under Canadian GAAP. The ABL Facility includes financial covenants to: a) maintain shareholders' equity above $639.0 million as at December 31, 2009; b) maintain excess availability above $35 million; and c) to not make capital expenditures in excess of 120% of the Company's annual budget. The minimum equity requirement is reduced by the amount of any non-cash write-downs of property, plant and equipment as a result of a permanent discontinuance of operations. At December 31, 2009, as calculated under the ABL Facility under Canadian GAAP, shareholders' equity was $881.4 million (2008 – $870.0 million). The borrowing base at December 31, 2009 was $147.9 million and after drawings of $14.5 million, and outstanding letters of credit of $24.1 million, $109.3 million was available to the Company ($84.3 million after reflecting the financial covenant to maintain excess availability above $35.0 million), in addition to cash on hand of $83.1 million. The borrowing base at December 31, 2009 includes a reserve of $15.1 million for unpaid property taxes and associated penalties.

The indentures and agreements governing the Company's senior notes contain customary restrictive covenants, including restrictions on incurring additional indebtedness, certain payments including dividends and investments in other persons, the creation of liens, sale and leaseback transactions, certain amalgamations, mergers, consolidations and the use of proceeds arising from certain sales of assets and certain transactions with affiliates. At December 31, 2009, the Company was in compliance with the covenants under both its ABL Facility and senior notes. The Company's Fixed Charge Coverage Ratio ("FCC Ratio") under the senior note indentures, calculated on a 12-month trailing average, was 1.5:1 at December 31, 2009 (December 31, 2008 – 2.1:1). While the FCC Ratio is below 2.0:1, the Company is limited in the amount of additional debt it may incur to "permitted debt" under the senior notes. Under the indenture for the 8.625% senior notes, "permitted debt" includes: a) the Company's existing 8.625% notes and 7.375% notes; b) a credit facility basket in an amount equal to the greater of: (i) $725 million; and (ii) the sum of 75% of the book value of the Company's accounts receivable, 50% of the book value of the Company's inventory and $290 million, against which in either case utilization under the Company's $330 million ABL Facility is applied; c) purchase money debt and capital lease obligations in an amount equal to 5.0% of the Company's consolidated tangible assets; d) a $40 million general basket; and e) a $5 million basket for accommodation guarantees, trade or standby letters of credit, performance bonds, bankers' acceptances and surety bonds. Under the indenture for the 7.375% senior notes, "permitted debt" includes: a) the Company's existing 8.625% notes and 7.375% notes; b) a credit facility basket in an amount equal to the greater of: (i) $725 million; and (ii) the sum of 85% of the book value of the Company's accounts receivable, 60% of the book value of the Company's inventory and $375 million, against which in either case utilization under the Company's $330 million ABL Facility is applied; c) purchase money debt and capital lease obligations in an amount equal to 7.5% of the Company's consolidated tangible assets; d) a $100 million general basket; and e) a $5 million basket for accommodation guarantees, trade or standby letters of credit, performance bonds, bankers' acceptances and surety bonds. Also, the Company's restricted payments baskets under the 8.625% and 7.375% senior notes were negative $201.0 million and negative $176.0 million, respectively, as at December 31, 2009, as a result of accumulated losses in recent years (December 31, 2008 – negative $109.8 million and negative $84.8 million, respectively). Under the senior note covenants, the Company cannot pay dividends unless the balance in these baskets is positive.

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Non-recourse debt is debt owed by PREI. The Company has a 50% interest in PREI, and consolidates 100% of it as PREI is a VIE in which the Company is the primary beneficiary. On July 24, 2009, PREI refinanced $75.0 million of 6.387% first mortgage bonds, due July 2009, through the issuance of $95.0 million of 6.447% first mortgage bonds, due July 2016.

Scheduled total debt repayments	Recourse debt	Non-recourse debt (PREI)
2010	$ 1.0	$ –
2011	371.8	–
2012	4.0	–
2013	18.3	–
2014	263.0	–
Thereafter	–	113.8
	$ 658.1	$ 113.8

The Company's debt is measured at amortized cost. The following table presents information about management's best estimate of the fair value of the Company's debt at December 31:

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Debt				
Recourse	**$ 662.7**	**$ 472.3**	$ 875.5	$ 414.3
Non-recourse	**112.9**	**113.8**	94.4	95.8

The fair value of the Company's long-term recourse debt related to its senior notes is determined based on quoted market prices of identical debt instruments. The fair value of the Company's recourse debt related to the ABL Facility and non-recourse debt related to the first mortgage bonds is measured by discounting the respective cash flows at quoted market rates for similar debt having the same maturity. In measuring fair value, the Company incorporates credit valuation adjustments to appropriately reflect its own non-performance risk, where appropriate. The carrying value of other long-term debt approximates its fair value.

15. EMPLOYEE FUTURE BENEFITS

Description of Benefit Plans

The Company maintains pension benefit plans for all salaried employees, which include defined benefit and defined contribution segments. Employees hired subsequent to January 1, 1994 enroll in the defined contribution segment. Effective January 1, 2010, employees in the defined benefit plan will cease to accrue benefits under the defined benefit segment of the plan and will begin to participate in the defined contribution segment of the plan. The Company also maintains pension benefits for former hourly employees that are not covered by union pension plans.

The Company provides other benefit plans consisting of provincial medical plan premiums, extended health care and dental benefits to eligible retired employees and their dependents. Assumed health care trend rates have a significant effect on the amounts reported for the post-retirement medical plans. Provincial government changes to medical services plan rates increased other post-retirement obligations by $20.7 million in 2009. In December 2009, the Company announced changes to its benefit plans to active employees which include the replacement of the current health benefit program with a core program for salaried employees. The changes will be implemented over the next two years and in accordance with FASB ASC 715, a reduction in the benefit obligation of $17.5 million resulting from the plan changes has been recognized as a negative plan amendment as at December 31, 2009.

Defined Contribution Plans

For the defined contribution segment, the Company's contributions are based on a percentage of an employee's earnings with the Company's funding obligations being satisfied upon crediting contributions to an employee's account. The pension expense under the defined contribution payment is equal to the Company's contribution. Effective January 1, 2010, the Company contribution level under the defined contribution segment of the plan is reduced from 7% to 5% of pensionable earnings.

Defined Benefit Plans

The defined benefit segment provides a pension based on years of service and earnings. Benefits accrued under the defined benefit segment of the plan for service prior to January 1, 2010 will remain in the defined benefit plan and will continue to be eligible for future salary growth and early retirement subsidies.

The Company measures the fair value of plan assets and the projected benefit obligations for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the majority of pension plans for funding purposes was as of December 31, 2007, and the next required valuation will be as of December 31, 2010.

Components of Net Periodic Benefit Cost Recognized in the Year

Pension benefit plans	**2009**	2008	2007
Defined benefit costs			
Service cost for the year	**$ 3.3**	$ 5.2	$ 5.3
Interest cost	**22.2**	19.3	18.2
Actual return on assets	**(32.3)**	54.6	1.1
Actuarial (gain) loss	**27.8**	(49.3)	(7.4)
Prior service costs	**–**	5.1	–
Settlement loss	**–**	–	0.5
Curtailment loss	**0.1**	–	–
Recognition of restructuring program (note 20)	**5.6**	7.5	12.6
Difference between actual and expected return	**17.3**	(73.9)	(20.7)
Difference between actual and recognized actuarial (gain) loss and other	**(24.3)**	54.2	10.0
Difference between actual and recognized prior service costs	**0.5**	(5.1)	–
	20.2	17.6	19.6
Defined contribution cost			
Service cost for the year	**5.2**	5.5	5.3
Net periodic benefit cost for pension benefit plans	**$ 25.4**	$ 23.1	$ 24.9

Other benefit plans	**2009**	2008	2007
Defined benefit costs			
Service cost for the year	**$ 2.3**	$ 4.6	$ 5.1
Interest cost	**11.2**	11.5	11.4
Actuarial (gain) loss	**36.6**	(65.1)	(18.3)
Prior service credits	**(17.2)**	–	–
Difference between actual and recognized actuarial (gain) loss and other	**(37.3)**	66.9	21.5
Difference between actual and recognized prior service (credits) costs	**17.0**	(0.2)	(0.2)
Net periodic benefit cost for other benefit plans	**$ 12.6**	$ 17.7	$ 19.5

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Change in Projected Defined Benefit Plan Obligation and Fair Value of Plan Assets

The following table represents the change in the projected benefit obligation and fair value of plan assets as determined by independent actuaries:

	Pension benefit plans		Other benefit plans	
	2009	2008	**2009**	2008
Change in benefit obligation				
Projected benefit obligation at beginning of year	**$ 334.3**	$ 375.8	**$ 163.7**	$ 219.4
Service cost for the year	**3.3**	5.2	**2.3**	4.6
Interest cost	**22.2**	19.3	**11.2**	11.5
Employee contributions	**0.3**	0.5	**–**	–
Transfers in from other plans	**0.2**	–	**–**	–
Benefit payments	**(32.5)**	(29.8)	**(7.3)**	(6.7)
Recognition of restructuring program (note 20)	**5.6**	7.5	**–**	–
Prior service (credits) costs	**–**	5.1	**(17.2)**	–
Curtailment of gain recognized	**(0.5)**	–	**–**	–
Actuarial loss (gain) and other adjustments	**27.8**	(49.3)	**36.6**	(65.1)
Projected benefit obligation at end of year	**$ 360.7**	$ 334.3	**$ 189.3**	$ 163.7
Change in plan assets				
Fair value of defined benefit plan assets at beginning of year	**$ 220.6**	$ 276.4	**$ –**	$ –
Actual return on plan assets	**32.3**	(54.6)	**–**	–
Employee contributions	**0.3**	0.5	**–**	–
Company contributions	**21.4**	26.7	**7.3**	6.7
Transfers in from other plans	**0.2**	–	**–**	–
Other	**(0.7)**	1.4	**–**	–
Benefit payments	**(32.5)**	(29.8)	**(7.3)**	(6.7)
Fair value of assets at end of year	**$ 241.6**	$ 220.6	**$ –**	$ –

Reconciliation of Funded Status to Amounts Recognized in the Consolidated Balance Sheet

	Pension benefit plans		Other benefit plans	
	2009	2008	**2009**	2008
Projected benefit obligation at end of year	**$ 360.7**	$ 334.3	**$ 189.3**	$ 163.7
Fair value of plan assets at end of year	**241.6**	220.6	**–**	–
Funded status	**$ (119.1)**	$ (113.7)	**$ (189.3)**	$ (163.7)

	Pension benefit plans		Other benefit plans	
	2009	2008	**2009**	2008
Other assets (note 12)	**$ 0.2**	$ 0.2	**$ –**	$ –
Accounts payable and accrued liabilities (note 13)	**(6.7)**	(7.7)	**(7.3)**	(6.7)
Employee future benefits	**(112.6)**	(106.2)	**(182.0)**	(157.0)
	$ (119.1)	$ (113.7)	**$ (189.3)**	$ (163.7)

Amounts Not Yet Recognized in Net Periodic Benefit Cost and Included in Accumulated Other Comprehensive Income (Loss)

	Pension benefit plans		Other benefit plans	
	2009	2008	**2009**	2008
Prior year service credits (costs)	**$ (3.1)**	$ (3.2)	**$ 12.0**	$ 0.9
Accumulated gain (loss)	**(60.1)**	(53.4)	**(9.7)**	14.2
Accumulated other comprehensive income (loss)	**$ (63.2)**	$ (56.6)	**$ 2.3**	$ 15.1

Amounts Before Taxes Included in Other Comprehensive Income (Loss)

	Pension benefit plans		Other benefit plans	
	2009	2008	**2009**	2008
Amortization of employee future benefits	**$ 10.1**	$ 12.2	**$ (0.8)**	$ 1.7
Net gain (loss)	**(16.2)**	(35.3)	**(19.9)**	66.2
Net amount recognized in other comprehensive income (loss)	**$ (6.1)**	$ (23.1)	**$ (20.7)**	$ 67.9

An estimated amount of $4.6 million of losses for pension plans and $2.3 million of gains for other benefit plans will be amortized from accumulated other comprehensive income (loss) to net periodic benefit cost in 2010.

As at December 31, 2009, of the total funding deficit of $119.1 million (2008 – $113.7 million) in the Company's various defined benefit pension plans, $49.4 million (2008 – $53.0 million) is related to funded defined benefit pension plans and $69.7 million (2008 – $60.7 million) to "pay-as-you-go" unfunded defined benefit pension plans. In addition, all of the other post-retirement benefit plans, consisting of group health care and life insurance, which had a deficit of $189.3 million at December 31, 2009 (2008 – $163.7 million) related to "pay-as-you-go" plans.

Estimated Future Benefit Payments

Total cash payments for employee future benefits for the year ended December 31, 2009, consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded benefit plans and cash contributed to its defined contribution plans, was $33.9 million (2008 – $38.9 million). During 2010, the Company expects to contribute approximately $16 million to its pension plans and approximately $8 million to its other benefit plans.

The following table presents estimated future benefit payments from the plans as of December 31, 2009. Benefit payments for other post-retirement benefits are presented net of retiree contributions.

	Pension benefit plans	Other benefit plans
2010	$ 29.7	$ 7.6
2011	39.5	7.2
2012	28.8	7.7
2013	28.8	8.1
2014	28.9	8.6
2015 – 2019	144.5	50.3

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Unionized employees of the Company are members of multi-employer industry-wide pension plans to which the Company contributes a predetermined amount per hour worked by an employee. The pension expense for these plans is equal to the Company's contribution of $10.7 million in 2009 (2008 – $15.5 million). During 2010, the Company expects to contribute approximately $9 million in respect to these plans.

Plan Assets Allocation

The asset allocation for the Company's defined benefit pension plans, by asset category, was as follows:

Plan assets at December 31,	**2009**	2008
Equity securities	**60.8%**	52.6%
Fixed income securities	**39.2%**	47.4%
Total	**100.0%**	100.0%

Fair Value of Plan Assets

The following table presents information about the fair value of pension and other benefit plan assets as of December 31, 2009:

		Fair value hierarchy		
	Total	Level 1	Level 2	Level 3
Asset category				
Cash and cash equivalents	$ 2.7	$ 2.7	$ –	$ –
Equity securities:				
Global equity pooled funds [1]	94.5	–	94.5	–
Canadian equity pooled funds [2]	46.5	–	46.5	–
U.S. equity pooled funds [3]	3.2	–	3.2	–
Balanced equity pooled funds [4]	0.5	–	0.5	–
Fixed income securities:				
Canadian long bond pooled funds [5]	45.1	–	45.1	–
Canadian bond pooled funds [5]	45.4	–	45.4	–
U.S. bond pooled funds [6]	2.3	–	2.3	–
Forward currency contracts [7]	1.4	–	1.4	–
Total	$ 241.6	$ 2.7	$ 238.9	$ –

1 This category includes investments in pooled funds that aim to achieve long-term capital growth by investing primarily in equity securities of companies that may be located anywhere in the world, excluding Canada. Fund performance is benchmarked against the MSCI World excluding Canada (Cdn$) Index.

2 This category includes investments in pooled funds that invest in well-diversified portfolios of equity securities of Canadian companies. Fund performance is benchmarked against the S&P/TSX Capped Composite Index.

3 This category includes investments in pooled funds that invest in well-diversified portfolios of equity securities of U.S. companies, $2.5 million of which is invested in pooled funds that primarily invest in equity securities of U.S. large-capitalization companies, and $0.7 million of which is invested in pooled funds that primarily invest in equity securities of U.S. small and medium-capitalization companies. The former fund is benchmarked against the S&P 500 Index, and the latter is benchmarked against the Russell 2000 Index.

4 This category includes investments in pooled funds that invest in a well-diversified, balanced portfolio of Canadian common stocks, bonds, and money market securities. The Fund also holds a portion of its assets in foreign common stock. Fund performance is benchmarked against a customized index consisting of: 35% S&P/TSX Capped Composite Total Return Index, 25% Morgan Stanley Capital International World (Developed Markets) Index excluding Canada, 35% DEX Universe Bond Index and 5% DEX 30 Day T-Bill Index.

5 This category includes investments in pooled funds that invest in a well-diversified portfolio of fixed income securities issued primarily by Canadian governments and corporations. The duration range of the fund is +/- one year of the benchmark's duration. Fund performance for Canadian bond pooled funds and Canadian long bond pooled funds is benchmarked against the DEX Universe Bond Index and DEX Long-Term Bond Index, respectively.

6 This category includes an investment in a pooled fund that invests in a well-diversified portfolio of fixed income securities, issued primarily by U.S. governments and corporation with a weighted average effective maturity of the portfolio of 7.48 years. Fund performance is benchmarked against the Barclays Capital Government/Credit Bond Index.

7 This category includes foreign currency forward contracts to partially hedge investments in equity and fixed income securities denominated in foreign currencies.

Cash and cash equivalents are primarily used to pay benefits and fair value is measured at carrying amount.

Equity and fixed income securities are comprised of pooled fund trusts, the fair values of which are measured using the net asset values of the funds, as calculated by the respective investment managers, and have daily or monthly liquidity. Net asset values are determined using quoted market prices for the actively-traded securities the fund has invested in. The funds do not invest in securities that are not actively traded.

Forward currency contracts are comprised of over-the-counter instruments and their fair value is measured using the discounted difference between contractual rates and market spot rates.

Significant Assumptions

Actuarial assumptions used in accounting for the Company-maintained benefit plans were:

		2009	2008
Benefit obligations at December 31,			
Discount rate		**6.00%**	7.00%
Rate of compensation increase		**2.00%**	2.50%
Net benefit cost for year ended December 31,			
Discount rate		**7.00%**	5.25%
Rate of compensation increase		**2.50%**	2.50%
Expected rate of return on plan assets		**7.00%**	7.00%
Assumed health care cost trend rate at December 31,			
Extended health benefits			
Initial health care cost trend rate		**7.00%**	7.50%
Annual rate of decline in trend rate		**0.50%**	0.50%
Ultimate health care cost trend rate		**4.50%**	4.50%
Dental benefits			
Dental care cost trend rate		**3.50%**	4.00%
Medical services plan benefits			
Premium trend rate	(in 2010 to 2012)	**6.00%**	2.00%
	(in 2013 & thereafter)	**4.50%**	

The discount rate for the Company's plans was based on the market interest rate on high-quality debt instruments currently available and expected to be available during the period to maturity of the benefit plans. For December 31, 2009 and December 31, 2008, the discount rates were based on AA corporate bond yields as of December 31, 2009 and December 31, 2008, respectively. In determining the rate of compensation increases, management considered the general inflation rate, productivity and promotions. For the health care cost inflation rate, management considered the trend in extended health care and dental costs in Canada and the impact of inflation on medical service plan premiums. The expected rate of return on plan assets reflects management's best estimate regarding the long-term expected return from all sources of investment return based on the Company's target asset allocation. The 2009 expected rate of return on plan assets was 7.0% per annum, which was based on a target allocation of approximately 20% Canadian Universe bonds, which were expected to earn approximately 3.6% per annum in the long term, 20% Canadian Long bonds, which were expected to earn approximately 4.2% per annum in the long term, 20% Canadian equity securities, which were expected to earn approximately 8.1% per annum in the long term, and 40% global equity securities, which were expected to earn approximately 8.7% per annum in the long term. The 2009 expected rate of return on plan assets also included a provision of 0.5% per annum in recognition of additional net returns assumed to be achieved due to active management and periodic rebalancing to maintain the plan's investment policy, net of investment manager fees, less a margin of 0.3% per annum for non-investment expenses expected to be paid from the plans.

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The Company's investment policy recognizes the long-term pension liabilities, the benefits of diversification across asset classes and the effects of inflation. The diversified portfolio is designed to maximize returns consistent with the Company's tolerance for risk. All assets are managed by external investment firms. These firms are constrained by specific mandates and objectives and their performance is measured against appropriate benchmarks. The asset allocation for each plan is reviewed periodically and is rebalanced toward target asset mix when asset classes fall outside of a predetermined range. Portfolio risk is controlled by having fund managers comply with guidelines, by establishing and monitoring the maximum size of any single holding in their portfolios and by using fund managers with different investment styles. The portfolio includes holdings of Canadian and international equities, Canadian high-quality and high-yield fixed income securities, and cash and cash equivalents. A series of permitted and prohibited investments are listed in the Company's investment policy. The use of derivative instruments is restricted and must be in accordance with the Company's policy. Prohibited investments include categories of assets or instruments not specifically provided for in the Company's investment policy.

Sensitivity Analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost rates would have the following effects for 2009:

Other benefit plans	**Increase**	Decrease
Total of service and interest cost	**$ 2.4**	$ (2.0)
Accrued benefit obligation at December 31	**30.2**	(26.0)

16. OTHER LONG-TERM OBLIGATIONS

The components of other long-term obligations at December 31 were as follows:

	2009	2008
Restructuring (note 20)	**$ 1.6**	$ 2.3
Environmental and remedial	**7.6**	6.8
Other	**4.2**	4.2
	$ 13.4	$ 13.3

17. INCOME TAXES

The components of "Earnings (loss) before income taxes" consist of the following:

	2009	2008	2007
Canada	**$ 1.2**	$ (349.7)	$ (135.2)
United States	**(22.8)**	(11.7)	10.5
Other	**(11.6)**	51.7	(6.8)
Earnings (loss) before income taxes	**$ (33.2)**	$ (309.7)	$ (131.5)

The income tax recovery consists of:

	2009	2008	2007
Canada:			
Current	**$ (0.2)**	$ 0.3	$ (0.1)
Future	**(17.4)**	(91.8)	(95.6)
	(17.6)	(91.5)	(95.7)
United States:			
Current	**(0.9)**	1.3	0.8
Future	**(9.2)**	(0.6)	(0.2)
	(10.1)	0.7	0.6
Other:			
Current	**0.1**	0.1	–
Future	**–**	–	–
	0.1	0.1	–
Total:			
Current	**(1.0)**	1.7	0.7
Future	**(26.6)**	(92.4)	(95.8)
	$ (27.6)	$ (90.7)	$ (95.1)

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision for the years ended December 31 was as follows:

	2009		2008		2007	
Income tax recovery at Canadian statutory income tax rates	**$ (9.9)**	**30.0%**	$ (96.0)	31.0%	$ (44.7)	34.0%
Increase (decrease) in income taxes for:						
Non-taxable income and expenses	**(13.6)**	**40.9**	13.0	(4.2)	(14.9)	11.3
Difference in foreign tax rate	**(7.5)**	**22.6**	(4.3)	1.4	(1.7)	1.3
Release of future income taxes related to reduction in corporate income tax rates	**8.6**	**(25.9)**	(5.8)	1.9	(17.5)	13.3
Change in the future income tax estimate	**(4.5)**	**13.5**	–	–	(14.4)	11.0
Adjustment to deferred credits	**(2.7)**	**8.1**	(2.7)	0.9	(2.3)	1.7
Other	**2.0**	**(6.1)**	5.1	(1.7)	0.4	(0.3)
Income tax recovery	**$ (27.6)**	**83.1%**	$ (90.7)	29.3%	$ (95.1)	72.3%

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Future Tax Assets and Liabilities

The tax effects of temporary differences that give rise to significant future tax assets were as follows at December 31:

	2009	2008
Future income tax assets		
Non-capital losses and temporary differences related to working capital	$ 14.2	$ 21.7
Employee future benefits	6.9	4.5
	21.1	26.2
Valuation allowance	(1.9)	–
	$ 19.2	$ 26.2
Classification:		
Prepaids and other (note 10)	$ 4.8	$ 26.2
Other assets (note 12)	14.4	–
	$ 19.2	$ 26.2

The tax effects of temporary differences that give rise to significant future tax liabilities were as follows at December 31:

	2009	2008
Future income tax liabilities		
Property, plant and equipment	$ 127.9	$ 184.2
Non-capital loss carry forwards	(59.7)	(79.7)
Employee future benefits	(71.8)	(68.2)
Other	23.6	8.3
	20.0	44.6
Valuation allowance	2.8	4.7
	$ 22.8	$ 49.3

At December 31, 2009, the Company had Canadian federal non-capital loss carry forwards of $234.8 million which expire during the period 2010 to 2029. At December 31, 2009, the Company had U.S. federal net operating loss carry forwards of $63.1 million which expire between 2010 and 2029. In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during periods in which temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Management believes that it is more likely than not that the resulting future operations will generate sufficient taxable income to realize the net future tax assets in Canada and the U.S.

Accounting for Uncertainty in Income Taxes

On January 1, 2007, the Company adopted new U.S. standards for accounting for uncertainty in income taxes. The new standards clarify the accounting for uncertainty in income taxes and use a more-likely-than-not threshold to determine recognition in the financial statements of an uncertain tax position. The more-likely-than-not threshold means that a benefit related to an uncertain tax position is recognized only when it is more-likely-than-not that the position will be sustained based on its technical merits and where it is more-likely-than-not that the position would be sustained if challenged by a tax authority. The tax position is measured as the largest amount of benefit that is more likely-than-not to be realized upon settlement. The unresolved uncertain tax positions must be reassessed at each balance sheet date based on these thresholds. The standards also provide guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure and is effective for fiscal years beginning after December 31, 2006. The Company did not record any unrecognized tax benefits as a result of applying these new standards.

Below is a reconciliation of the total amounts of unrecognized tax benefits for the years ended December 31, 2009 and 2008:

	2009	2008
Unrecognized tax benefits, beginning of year	$ 11.7	$ 16.9
Increases – tax positions taken in prior periods	2.7	–
Decreases – tax positions taken in prior periods	(2.7)	(2.5)
Current period tax positions	–	–
Settlements and lapse of statue of limitations	–	(2.6)
Decrease resulting from tax rate reduction	(0.1)	(0.1)
Unrecognized tax benefits, end of year	$ 11.6	$ 11.7

The above balances, if recognized, would affect the Company's effective tax rate.

The Company recognizes interest expense and penalties related to unrecognized tax benefits within the provision for income tax expense on the consolidated statement of earnings (loss). No interest expense or penalties related to unrecognized tax benefits were recorded during 2009. At December 31, 2009, there were no interest and penalties accrued in relation to uncertain tax positions in the consolidated balance sheet.

In the normal course of business, the Company and its subsidiaries are subject to audits by the Canadian federal and provincial taxing authorities, by the U.S. federal and various state taxing authorities and by the taxing authorities in various foreign jurisdictions. All tax years up to, and including December 31, 2005 have been audited by the Canadian federal taxing authorities. The Company's income taxes are not currently under audit by the U.S. Internal Revenue Service, by any U.S. state taxing authority or by any foreign taxing authority. The U.S. federal statute of limitations for pre-2006 tax years expired on September 15, 2009.

18. DEFERRED CREDITS

Continuity of deferred credits for the years ended December 31 was as follows:

	2009	2008
Beginning of year	$ 18.6	$ 21.7
Adjustment related to utilization of acquired tax losses	(2.7)	(2.7)
Adjustment resulting from reduction in corporate income tax rates	(0.4)	(0.4)
End of year	$ 15.5	$ 18.6

19. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table contains information about the AOCI of the Company at December 31, net of taxes:

	2009	2008
Unrecognized pension and other post-retirement benefits costs	$ (60.9)	$ (41.5)
Unrecognized gains (losses) on cash flow revenue hedges	7.7	(11.6)
Foreign currency translation adjustments, net of related hedging activities [1]	1.1	6.7
Unrecognized loss on interest rate hedges	(0.6)	–
	$ (52.7)	$ (46.4)

1 The accumulated net adjustment is comprised of non-taxable translation gain of $5.2 million (2008 – $36.7 million) and a net revaluation of long-term debt designated as a net investment hedge of $4.1 million loss (2008 – $30.0 million), net of taxes of $0.3 million (2008 – $4.7 million).

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20. RESTRUCTURING

The following tables summarize restructuring expenses and related provisions for each of the last two years by year the initiatives were announced:

Year ended December 31, 2009	2007 initiatives	2008 initiatives	2009 initiatives	Total
Balance, beginning of year	$ 8.2	$ 8.1	$ –	$ 16.3
Expensed in year	0.1	4.7	13.1	17.9
Disbursements	(8.1)	(9.3)	(4.9)	(22.3)
Other non-cash items	0.4	–	0.1	0.5
	0.6	3.5	8.3	12.4
Less: portion related to employee future benefits (note 15)	–	–	(5.6)	(5.6)
Balance, end of year	$ 0.6	$ 3.5	$ 2.7	$ 6.8
Classification				
Accounts payable and accrued liabilities (note 13)	$ 0.2	$ 3.0	$ 2.0	$ 5.2
Other long-term obligations (note 16)	0.4	0.5	0.7	1.6
	$ 0.6	$ 3.5	$ 2.7	$ 6.8

Year ended December 31, 2008	2007 initiatives	2008 initiatives	Total
Balance, beginning of year	$ 28.1	$ –	$ 28.1
Expensed in year	–	30.1	30.1
Disbursements	(7.5)	(16.1)	(23.6)
Other non-cash items	(1.2)	1.2	–
	19.4	15.2	34.6
Less: portion related to employee future benefits	(11.2)	(7.1)	(18.3)
Balance, end of year	$ 8.2	$ 8.1	$ 16.3
Classification			
Accounts payable and accrued liabilities (note 13)	$ 7.4	$ 6.6	$ 14.0
Other long-term obligations (note 16)	0.8	1.5	2.3
	$ 8.2	$ 8.1	$ 16.3

2009

In February 2009, the Company announced a restructuring plan for the Powell River mill which was developed jointly with the union locals at the mill in accordance with the commitment made by them in the new collective agreement reached in December 2008 to improve the mill's cost competitiveness. For the twelve months ended December 31, 2009, the Company recorded restructuring costs of $10.8 million related to this initiative.

In May 2009, the Company announced a restructuring plan to reduce the level of salaried staff positions, comprising of permanent reductions at the Richmond and Nanaimo offices and indefinite layoffs at the Crofton and Elk Falls mills where significant production capacity has been indefinitely curtailed. For the twelve months ended December 31, 2009, the Company recorded restructuring costs of $2.3 million related to the above reduction of salaried staff positions. During 2009, the Company also recorded restructuring costs of $4.8 million primarily for severance costs related to the closure of the Company's Elk Falls sawdust pulp and white top linerboard operation in November 2008.

2008

In February 2008, the Company reached new labour agreements at its Port Alberni mill, resulting in significant workforce reductions and related early retirement and severance payments. The agreements have a five-year term, expiring April 2013, and included a commitment by the Company to upgrade the thermo-mechanical pulp facility at the mill, and the restart, by mid-year, of its Port Alberni No. 4 paper machine, which had been idled indefinitely since September 2007. For the year ended December 31, 2008, the Company recorded $14.6 million in restructuring costs related to the early retirement and severance program.

In April 2008, the Company announced the indefinite curtailment of E1 at Elk Falls due to fibre shortages. The indefinite curtailment of E1 resulted in a reduction of approximately 145 employees at Elk Falls, the majority through lay-offs. At the same time, the Company also announced manning reductions of 82 positions at its Crofton mill as the mill took steps to improve its overall cost structure. The Company recorded net restructuring costs of $0.4 million in 2008 associated with these and prior initiatives.

In November 2008, the Company permanently closed its sawdust pulp and white top linerboard operation at its Elk Falls mill due to an ongoing unavailability of sawdust fibre. This closure resulted in removing 200,000 tonnes of annual sawdust pulp and 131,000 tonnes of annual white top linerboard capacity. The Company recorded severance related restructuring costs of $15.1 million and an asset impairment charge of $136.4 million in 2008 in connection with this closure.

2007

In 2007, the Company announced and implemented, in various phases during the year, a restructuring program which included reductions of approximately 565 positions across the Company, the relocation of the corporate office, and the centralization of certain mill administrative functions. This plan was substantially completed during 2007 and the Company incurred $58.3 million of restructuring costs, of which $3.0 million was capital related.

In 2007, the Company also expensed $8.3 million for change-of-control payments, pension benefits and stock compensation to the former President and Chief Executive Officer, and the former Vice-President, Finance and Chief Financial Officer, who exercised their rights under change of control agreements and resigned their positions. These rights were triggered upon the acquisition by Third Avenue Management LLC of control or direction over 37.8% of the Company's common shares in October 2006. In addition, the Company expensed $1.1 million in change-of-control costs related to employee retention agreements that required certain key employees to remain actively employed by the Company for one year following a change-of-control.

21. INTEREST EXPENSE, NET

The components of interest expense, net, for the years ended December 31 were as follows:

	2009	2008	2007
Interest on long-term debt	**$ 68.8**	$ 78.0	$ 71.7
Fixed-to-floating interest rate swaps	**–**	(2.9)	–
Other	**0.6**	0.3	0.1
	69.4	75.4	71.8
Interest income	**(0.1)**	(0.3)	(0.9)
Capitalized interest	**–**	(0.1)	(0.2)
	$ 69.3	$ 75.0	$ 70.7

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22. OTHER INCOME (EXPENSE), NET

The components of other income (expense), net, for the years ended December 31 were as follows:

	2009	2008	2007
Gain (loss) on disposal of property, plant and equipment	**$ (3.9)**	$ 0.4	$ (13.6)
Fees related to bond exchange offer	**(2.2)**	–	–
Island cogeneration arbitration settlement (note 30)	**(1.4)**	–	–
Penalty on disputed property taxes	**(1.4)**	–	–
Foreign exchange gain on hedge of net investment	**–**	2.4	–
Termination fee on closure of corrugating machine at Snowflake	**–**	2.0	–
Financing expenses	**–**	–	(1.2)
Other	**(0.5)**	0.1	(0.5)
	$ (9.4)	$ 4.9	$ (15.3)

23. EARNINGS PER SHARE

The following table provides the reconciliation between basic and diluted earnings (loss) per share:

	2009	2008	2007
Net earnings (loss) attributable to the Company	**$ (4.4)**	$ (219.8)	$ (36.5)
Weighted average shares used in computation of basic earnings per share (in millions)	**381.8**	336.1	214.7
Weighted average shares from assumed conversion of dilutive options (in millions)	**–**	–	–
Weighted average shares used in computation of diluted earnings per share (in millions)	**381.8**	336.1	214.7
Basic and diluted earnings (loss) per share attributable to the Company's common shareholders (in dollars)	**$ (0.01)**	$ (0.65)	$ (0.17)

24. STOCK-BASED COMPENSATION PLANS

(a) Details of Stock-based Compensation Expense

	2009	2008	2007
Stock option awards	**$ 0.6**	$ 1.0	$ 2.4
Restricted share units	**1.2**	1.5	0.8
Deferred share units	**0.5**	0.2	0.2
	$ 2.3	$ 2.7	$ 3.4

(b) Stock Option Plans

The Company has an employee share option plan (the "Plan") for its key officers, directors and employees. The Plan provides for the issuance of up to a maximum of 12.0 million common shares.

The long-term component of the mid to long-term incentive plan ("MLTIP") for the Company's executives consists of stock options. Vesting of the stock options granted under the MLTIP is subject to the length of time that the executive remains with the Company and the achievement of specified return on capital employed ("ROCE") performance targets. These options have a seven-year life, and an exercise price equal to the weighted average price per share of the common shares for all sales of common shares on the Toronto Stock Exchange ("TSX") during the five consecutive trading days preceding the date of the grant of the options.

Options granted, other than those granted pursuant to the Company's MLTIP, have a maximum term of ten years. These options are exercisable as to one-third on and after the first anniversary date, as to two-thirds on and after the second anniversary date and as to all on and after the third anniversary date, unless, in the case of options granted on March 28, 2007, the market price of the common shares exceeds a specified acceleration price, in which case all of the options are exercisable at that time. In general, market price for options is determined by the weighted average price per share for all sales of common shares on the TSX on the date on which a determination of market price is required under the Plan. However, market price for options granted annually to the Company's directors under the director compensation program is set 25% above the market price as calculated above.

The Company applies fair value-based method for recording share options granted to directors, officers and employees. Under the fair value method, compensation cost is measured at fair value at the date of grant, and is expensed over the award's vesting period. Compensation expense related to performance-based options is recognized when it is probable that the performance conditions will be achieved.

As at December 31, 2009, the total remaining unrecognized compensation cost associated with the stock options totalled $0.3 million (2008 – $1.5 million) which will be amortized over the remaining vesting period.

The fair value of share options was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2009	2008	2007
Risk-free interest rate	**3.0%**	3.8%	4.5%
Annual dividends per share	**Nil**	Nil	Nil
Expected stock price volatility	**45%**	40.0%	30.5%
Expected option life (in years)	**10.0**	8.5	7.0
Average fair value of options granted (in dollars)	**$ 0.16**	$ 0.51	$ 1.25

The risk-free interest rate was based on a zero-coupon Government of Canada bond with a remaining term approximately equivalent to the expected life of the stock option. The Company estimated the annual dividends per share, expected stock price volatility and expected option life based on historical experience.

Changes in the number of options outstanding during the years ended December 31 were as follows:

	2009		2008		2007	
	Number of options	**Weighted average exercise price** (in dollars)	**Number of options**	**Weighted average exercise price** (in dollars)	**Number of options**	**Weighted average exercise price** (in dollars)
Beginning of year	**5,843,984**	**$ 2.42**	3,964,024	$ 3.43	8,171,000	$ 4.35
Granted	**204,000**	**0.40**	2,691,891	1.23	1,984,624	3.20
Exercised	**–**	**–**	–	–	(80,009)	3.31
Forfeited	**(336,534)**	**2.51**	(811,931)	3.42	–	–
Expired or cancelled	**(2,737,899)**	**1.93**	–	–	(6,111,591)	4.58
End of year	**2,973,551**	**2.72**	5,843,984	2.42	3,964,024	3.43

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The following table summarizes information about stock options outstanding and exercisable at December 31, 2009:

	Options outstanding			Options exercisable		
Range of exercise prices	Number of options	Weighted average remaining option life (years)	Weighted average range of exercise price (in dollars)	Number of options	Weighted average range of exercise price (in dollars)	Accelerated price (in dollars)
$0.40 - $0.80	204,000	9.1	$ 0.40	–	$ –	$ –
$1.15 - $1.95	960,174	8.1	1.37	400,296	1.32	–
$3.06 - $3.30	434,377	5.2	3.14	434,377	3.14	1.91
$3.31 - $3.77	832,500	5.6	3.50	832,500	3.50	5.01
$4.39 - $4.57	542,500	5.1	4.45	482,500	4.43	4.73
	2,973,551	6.5	$ 2.72	2,149,673	$ 3.23	$ 3.39

The aggregate intrinsic value of options outstanding and currently exercisable as at December 31, 2009 is $nil per option.

(c) Restricted Share Units

The Company has established a restricted share unit ("RSU") plan for its directors and key executives. Under the terms of this plan, senior executives are eligible to incentive remuneration paid to them in the form of RSUs. Each RSU, once vested, entitles the holder to receive one common share of the Company. The fair value of RSUs is based on the market value of the Company's shares on the day of the grant.

RSUs vest in accordance with terms determined by the Company, which may be based on, among other things, one or more of the following factors: (i) the return to shareholders with or without reference to other comparable businesses; (ii) the financial performance or results of the Corporation; (iii) other performance criteria relating to the Corporation; and (iv) the length of time of service by the participant. The performance terms that the Company may apply to RSUs are intended to strengthen the link between the Corporation's performance and the value of the RSUs at the time that they are paid out. In some cases, RSUs may vest immediately, depending upon the purpose of the individual RSU grant and the intended compensation goal.

The mid-term component of the MLTIP consists of performance based RSUs. Vesting of the RSUs is linked to the length of time that the executive remains employed with the Company, as well as the Company's ROCE. Compensation expense related to performance-based RSUs is recognized when it is probable that the performance conditions will be achieved.

As at December 31, 2009, the total remaining unrecognized compensation cost associated with the RSUs totalled $0.4 million (2008 – $2.2 million) which will be amortized over the vesting period.

Changes in the number of outstanding RSUs during the year ended December 31, 2009 were as follows:

	Number of shares	Weighted average fair value at grant date (in dollars)
Beginning of year	2,279,020	$ 2.49
Granted	490,435	0.30
Expired or cancelled	(1,437,205)	1.79
Forfeited	(154,993)	2.59
End of year	1,177,257	$ 2.43

(d) Deferred Share Unit Plan

The Company has established a deferred share unit ("DSU") plan for its directors. Under the terms of this plan, directors may elect to receive their annual cash remuneration in DSUs, cash or a combination thereof. Each DSU initially has a value equivalent to the Company's weighted average share price on the TSX, during the 10 consecutive trading days prior to the issuance date of the DSU. A director's DSU account is credited with dividend equivalents in the form of additional DSUs when dividends are paid on common shares. A director may elect the date of redemption by filing an irrevocable written election with the Company no later than December 15 of the calendar year commencing immediately after the director's termination date. The value will be paid by the Company as a lump sum in cash, equal to the fair value of the notional underlying common shares plus accrued dividend equivalents at that date, after deduction of applicable taxes and other source deductions required to be withheld. Liabilities related to this plan are recorded in "Accounts payable and accrued liabilities." As at December 31, 2009, 1,018,106 DSUs were outstanding under this plan (2008 – 646,119 DSUs) and approximately $0.2 million was payable (2008 – $0.3 million).

25. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non-performance.

A fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. The three levels of inputs that may be used to measure fair value are:

Level 1
Quoted prices in active markets for identical assets or liabilities.

Level 2
Observable inputs other than quoted prices in active markets for identical assets and liabilities, such as quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3
Inputs that are generally unobservable and are supported by little or no market activity and that are significant to the fair value determination of the assets or liabilities.

The following table presents information about the fair value of the Company's derivative and non-derivative instruments designated as hedging instruments and measured or disclosed at fair value on a recurring basis at December 31:

	2009	2008	Fair value hierarchy	Balance sheet classification
Assets				
Currency contracts	**$ 13.6**	$ –	2 [1]	Prepaids and other
Currency contracts	**3.1**	0.5	2 [1]	Other assets
	$ 16.7	$ 0.5		
Liabilities				
Currency contracts	**$ –**	$ 27.4	2 [1]	Accounts payable and accrued liabilities

Fair value of the Company's derivatives are classified under Level 2 (inputs that are observable; directly or indirectly) as they are measured as follows:

1 The fair value of forward currency contracts is measured using the discounted difference between contractual rates and market future rates. Interest rates, forward market rates, and volatility are used as inputs for such valuation techniques. The Company incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the counterparty's non-performance risk in the fair value measurements.

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The following table presents information about the fair value of the Company's derivative and non-derivative financial instruments not designated as hedging instruments and measured on a recurring basis at December 31:

	2009	2008	Fair value hierarchy	Balance sheet classification
Assets				
Currency contracts	**$ 2.3**	$ –	2 [1]	Prepaids and other
Currency contracts	–	34.2	2 [1]	Other assets
Commodity swap contracts	–	1.3	2 [2]	Prepaids and other
	$ 2.3	$ 35.5		
Liabilities				
Commodity swap contracts	**$ –**	$ 2.4	2 [2]	Accounts payable and accrued liabilities

Fair value of the Company's derivatives are classified under Level 2 (inputs that are observable; directly or indirectly) as they are measured as follows:

1 The fair value of forward currency contracts is measured using the discounted difference between contractual rates and market future rates. Interest rates, forward market rates, and volatility are used as inputs for such valuation techniques. The Company incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the counterparty's non-performance risk in the fair value measurements.

2 The fair value of commodity swap contracts is measured using the discounted difference between contractual rates and market rates. The fair value of natural gas commodity options is measured using techniques derived from the Black-Scholes pricing model. The Company incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the counterparty's non-performance risk in the fair value measurements.

The following table presents information about the effects of the Company's derivative instruments designated as hedging instruments on the Company's consolidated financial statements at December 31:

	Gain (loss) recognized in AOCI [1]		(Gain) loss reclassified from AOCI [1]		Classification on Statement of earnings (loss) reclassified from AOCI [1]	Gain (loss) recognized in income [2]	
	2009	2008	**2009**	2008		**2009**	2008
Derivatives designated as cash flow hedges							
Currency contracts	**$ 14.5**	$ (25.0)	**$ 4.8**	$ (0.2)	Sales	**$ 0.4**	$ (8.8)
Derivatives and other instruments designated as net investment hedges							
Long-term debt	**$ 24.9**	$ (30.1)	**$ 1.0**	$ –	Foreign exchange gain (loss) on long-term debt	**$ –**	$ –

1 The gain (loss) recognized, or (gain) loss reclassified from AOCI relates to the effective portion of the hedge.

2 The gain (loss) recognized in income relates to the ineffective portion of the hedge and the amount excluded from effectiveness testing.

As U.S. dollar denominated revenues are recognized over the next 12 months subsequent to December 31, 2009, the Company estimates that net gain of $10.3 million, or an after-tax net gain of $7.2 million, will be reclassified from AOCI to "Sales".

The following table presents information about the effects of the Company's derivative instruments designated as fair value hedges on the Company's consolidated financial statements for year ended December 31:

	Gain (loss) recognized in income		Classification on Statement of earnings (loss)
	2009	2008	
Interest rate swaps	**$ 0.7**	$ 3.3	Interest expense, net [1]

1 The portion of the gain (loss) that relates to the foreign exchange portion of the contract is included in "Foreign exchange gain (loss) on long-term debt" and is equal to $nil for December 31, 2009 (2008 – $0.1 million).

The Company has no fixed-to-floating interest rate swaps outstanding at December 31, 2009.

During the year ended December 31, 2008, the Company unwound its fixed-to-floating interest rate swap contracts for notional US$80 million for proceeds of $7.6 million. The effective portion of changes in the fair value of these derivatives was netted in "Long-term debt" and is being amortized to "Interest expense, net" over the remaining term to maturity of the related debt.

The following table presents information about the effects of the Company's derivative instruments not designated as hedging instruments on the Company's consolidated financial statements at December 31:

	Gain (loss) recognized in income		Classification on Statement of earnings (loss)
	2009	2008	
Currency contracts related to revenue hedges	**$ 6.6**	$ (33.3)	Sales
Currency contracts related to debt hedges	**(0.4)**	37.9	Foreign exchange gain (loss) on long-term debt
Commodity swap contracts related to pulp and newsprint hedges	**2.1**	(0.2)	Sales
Commodity swap contracts related to natural gas and old newspaper hedges	**(0.4)**	(3.3)	Cost of sales, excluding depreciation and amortization
	$ 7.9	$ 1.1	

Fair Value of Other Financial Instruments

The carrying value of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

26. FINANCIAL INSTRUMENTS

(a) Financial Risk Management

Financial instruments of the Company consist primarily of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt. Financial instruments of the Company also include derivatives which the Company uses to reduce its exposure to currency and price risk associated with its revenues, energy costs and long-term debt.

The Company has exposure to risk from its financial instruments, specifically credit risk, market risk (including currency, price and interest rate risk) and liquidity risk.

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The Board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of directors and Audit Committee have approved a policy to manage the risks from the use of derivatives. This policy provides objectives for, and limits on the use of derivatives. Derivative positions are reported to the Audit Committee quarterly. Management policies identify and analyze the risks, establish appropriate controls, place responsibilities and limits and provide for regular monitoring and reporting requirements. A Financial Risk Committee of management meets monthly to review outstanding positions and authorize ongoing or additional hedge placements under the policy. Periodic reviews of internal controls related to financial risk management are performed by internal audit.

(i) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. This risk derives principally from the Company's receivables from customers and derivative counterparties.

Accounts Receivable

The Company is exposed to credit risk on accounts receivable from its customers who are mainly in the newspaper publishing, commercial printing and paper manufacturing businesses. The Company manages its credit risk principally through credit policies, which include the analysis of the financial position of its customers and the regular review of their credit limits. The Company also subscribes to credit insurance for substantially all of its receivables, periodically purchases accounts receivable puts on certain customers, and obtains bank letters of credit for some export market customers.

Aging of receivables at December 31 were as follows:

	2009	2008
Trade receivables, gross		
Current	**$ 89.0**	$ 177.8
Past due 1-30 days	**7.3**	24.5
Past due 31-90 days	**1.0**	4.0
Past due over 90 days	**1.4**	0.3
	98.7	206.6
Allowance for doubtful accounts	**(3.7)**	(3.2)
Trade receivables, net	**95.0**	203.4
Other receivables, including goods and services tax recoverables	**6.5**	18.3
Accounts receivable (note 8)	**$ 101.5**	$ 221.7

The movement in the allowance for doubtful accounts in respect of trade receivables during the years ended December 31 were as follows:

	2009	2008
Balance, beginning of year	**$ 3.2**	$ 2.8
Increase in provision	**1.2**	3.1
Utilized in the year	**(0.7)**	(2.7)
Balance, end of year (note 8)	**$ 3.7**	$ 3.2

The Company experienced larger bad debt expense in 2008 as a result of deteriorating economic conditions and the difficult refinancing environment.

Derivatives

The Company is also exposed to credit risk with counterparties to the Company's derivative financial instruments. The credit risk arises from the potential for a counterparty to default on its contractual obligations, and is limited to those contracts where the Company would incur a cost to replace a defaulted transaction. The Company manages this risk by diversifying through counterparties that are of strong credit quality, normally major financial institutions.

(ii) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates will affect the Company's cash flows or the value of its financial instruments (e.g., fixed interest long-term debt).

Currency risk

The Company is exposed to the risk that future cash flows will fluctuate as substantially all of the Company's sales and accounts receivable are denominated in U.S. dollars, while only a portion of its costs and payables are denominated in or referenced to U.S. dollars. The Company is also exposed to the fluctuations in the fair value of its debt denominated in U.S. dollars. The Company uses foreign currency options and forward contracts to partially hedge trade receivables and anticipated future sales denominated in foreign currencies as well as U.S. dollar denominated debt.

The Company's hedging policy for anticipated sales and accounts receivable includes 0% to 67% of 0- to 12-month and 0% to 25% of 13- to 24-month U.S. dollar net exposure. Hedges are layered in over time, increasing the portion of sales or accounts receivable hedged as it gets closer to the expected date of the sale or collection of the account receivable.

The Company's hedging policy for its U.S. dollar denominated debt includes 0% to 60% of U.S. dollar net exposure. Future U.S. dollar revenues also provide a partial natural hedge for U.S. dollar denominated debt.

Price risk

The Company's policy allows for hedges of newsprint and pulp to be placed on anticipated sales and hedges of old newsprint to be placed on anticipated purchases. As well, hedges are placed on anticipated purchases at 0% to 70% of the net exposure for oil and natural gas. The outstanding hedge positions are not significant and the price risk associated with the Company's commodity hedges, for pulp output, is de minimus.

Interest rate risk

The fair value of the Company's fixed-rate debt or the future cash flows of variable-rate debt or fixed-to-floating interest swaps may fluctuate because of changes in market interest rates. The Company's policy is to keep the majority of its term debt on a fixed-rate basis, but allow for the placing of some fixed-to-floating swaps at rates considered acceptable.

Sensitivity analysis for derivative positions and variable rate debt

				Effect from increase in rate or price		Effect from decrease in rate or price	
As at December 31, 2009	Currency and notional amount		Change in rate or price	Net earnings (loss)	Other comprehensive income	Net earnings (loss)	Other comprehensive income (loss)
Revenue hedges							
– currency risk (US$/C$)	US$	366	5%	1.9	7.2	(5.3)	(3.3)
ABL Facility							
– interest risk (annualized)	C$	15	100 bps	(0.1)	–	0.1	–

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(iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due over the next 12 to 24 months, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's principal cash requirements are for interest payments on its debt, capital expenditures and working capital needs. The Company uses its operating cash flows, ABL Facility and cash balances to maintain its liquidity. Internal forecasts are regularly prepared that include earnings, capital expenditures, cash flows, cash or revolver drawings, and sensitivities for major assumptions. The internal forecasts include borrowing base availability and covenant compliance. The Company also monitors the maturities of its long-term debt and assesses refinancing costs and risks in deciding when to refinance debt in advance of its maturity.

(b) Revenue Risk Management Instruments

Foreign currency options and forward contracts outstanding to sell U.S. dollars were as follows:

	Options					
	Purchased US$ put		Sold US$ call		Forward contracts	
Term	US$millions	Average rate US$/C$	US$millions	Average rate US$/C$	US$millions	Average rate US$/C$
As at December 31, 2009						
0 to 12 months	**$ 270**	**0.9319**	**$ 241**	**0.8281**	**$ 27**	**0.8729**
13 to 24 months	**69**	**0.9590**	**53**	**0.8370**	**–**	**–**
	$ 339	**0.9373**	**$ 294**	**0.8297**	**$ 27**	**0.8729**
As at December 31, 2008						
0 to 12 months	$ 501	0.9553	$ 302	0.8810	$ 14	0.7805
13 to 24 months	55	0.9674	10	0.8877	–	–
	$ 556	0.9565	$ 312	0.8812	$ 14	0.7805

The effective portion of changes in the fair value of derivatives that qualify and are designated as cash flow hedges are deferred and recorded in AOCI, a component of shareholders' equity. When the underlying transaction is recorded in earnings, the corresponding gain or loss on the hedged item is reclassified from AOCI to "Sales." Any ineffective portion of a hedging derivative's change in fair value and the portion that is excluded from the assessment of hedge effectiveness is recognized immediately in "Sales." At December 31, 2009, instruments having a notional principal of US$284 million are designated as hedging instruments. At year-end exchange rates, the net amount the Company would receive to settle the above contracts and options is $19.0 million (December 31, 2008 – negative $26.9 million).

(c) Cost Risk Management Instruments

At December 31, 2009, the agreements to purchase natural gas were negligible.

At December 31, 2008, the Company was party to commodity collars to hedge the purchase price of natural gas for 0.5 million gigajoules ("GJ") within the next three months at rates averaging $8.00 and $7.63 per GJ for purchased options and written options, respectively. These instruments were not designated as hedging instruments for accounting purposes and were reported at fair value in "Prepaids and other" or "Accounts payable and accrued liabilities" on the consolidated balance sheet. Changes in fair value was recognized in "Cost of sales, excluding depreciation and amortization". At period-end contract rates, the fair value of these contracts was $nil (December 31, 2008 – negative $0.8 million).

(d) Long-term Debt Risk Management Instruments

The Company had no forward foreign currency contracts or options to acquire U.S. dollars at December 31, 2009 (December 31, 2008 – US$190 million). At period-end exchange rates, the net amount the Company would receive to settle these contracts at December 31, 2008 was $34.2 million.

(e) Interest Rate Swaps

The Company had no fixed-to-floating interest rate swaps outstanding at December 31, 2009.

During the year ended December 31, 2008, the Company unwound its fixed-to-floating interest rate swap contracts for notional US$80 million for proceeds of $7.6 million. The effective portion of changes in the fair value of these derivatives was netted in "Long-term debt", to be amortized over the remaining term to maturity of the related debt. The ineffective portion was recognized in "Interest expense, net."

27. RELATED PARTY TRANSACTIONS

Related parties include Third Avenue Management LLC ("TAM"), which has control or direction over a significant number of the Company's common shares since October 2006. The Company did not undertake any transactions with TAM during the year ended December 31, 2009. In 2008, TAM acquired an additional 59,856,422 common shares in connection with the rights offering related to the acquisition of Snowflake.

The Company undertakes certain transactions with companies affiliated with its directors. These transactions are in the normal course of business and are on the same terms as those accorded to third parties. During 2009, the Company paid aggregate fees of approximately $7.1 million (2008 – $10.0 million; 2007 – $8.7 million) primarily for obligations under a building lease, for services related to trucking chips and sawdust, and for other consulting services to companies affiliated with directors of the Company.

28. COMMITMENTS

The Company has entered into operating leases for property, plant and equipment. The minimum future payments under various operating leases in each of the years ended December 31 are as follows:

2010	$ 10.4
2011	8.7
2012	6.3
2013	6.2
2014	5.1
Subsequent years	24.5
	$ 61.2

The total lease expense amounted to $11.5 million in 2009 (2008 – $11.9 million; 2007 – $12.3 million).

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29. GUARANTEES AND INDEMNITIES

The Company has, over time, provided various indemnities with respect to tax, environment, and employment liabilities, as well as general representations and warranties on sales of portions of its business, acquisitions, and commodity contracts. Significant existing indemnities are as follows:

(a) The Company sold a portion of its operations in June 2001. In this regard, the Company provided a 10-year environmental indemnity with a maximum liability to the Company of $12.5 million. This liability has subsequently been reduced by expenditures related to certain decommissioning projects. The Company provided a tax indemnity, which continues while the relevant tax years of the indemnified parties remain open to audit.

(b) In connection with the acquisition of the Company's paper recycling operation in December 2003, the Company has provided indemnities with respect to representations and warranties related to general corporate matters and to the shares that have been issued to the vendors. Liability under these indemnities expired in November 2008, except that the indemnity related to title to the shares does not expire. The Company does not expect any significant claims with respect to this indemnity. The Company has also provided indemnities with respect to general environmental matters under its lease of the land and buildings. The Company has agreed to indemnify the landlord for all costs, claims and damages related to any release by the Company of any hazardous substances on the property or the breach by the Company of its environmental covenants under the lease or any environmental laws. This indemnity is indefinite and survives after the lease is terminated. The Company is not liable for pre-existing environmental conditions.

(c) The Company has entered into a building lease agreement whereby it has agreed to continue making the prescribed lease payments directly to the financial institution holding the mortgage on the building in the event the lessor is no longer able to meet its contractual obligations (note 6). As at December 31, 2009, the value of the mortgage was $7.9 million (2008 – $9.6 million). This agreement does not increase the Company's liability beyond the obligation under the building lease.

At December 31, 2009, the Company is unable to estimate the potential maximum liabilities for these types of indemnification guarantees as the amounts are contingent upon the outcome of future events, the nature and likelihood of which cannot be reasonably estimated at this time. Accordingly, no provisions have been recorded. These indemnifications have not resulted in a significant expense in the past.

30. CONTINGENT LIABILITIES

In the normal course of its business activities, the Company is subject to a number of claims and legal actions that may be made by customers, suppliers and others. While the final outcome with respect to actions outstanding or pending as at December 31, 2009 cannot be predicted with certainty, the Company believes an adequate provision has been made, or the resolution will not have a material effect on the Company's consolidated financial position, earnings or cash flows.

Due to on-going weak market conditions, the Company has continued to curtail certain operations at its Elk Falls and Crofton mills. As at December 31, 2009, these curtailments have affected approximately 300 hourly employees at the Elk Falls mill and approximately 70 hourly employees at the Crofton mill through protracted lay-offs. The labour agreement between the Company and union locals provides that if an hourly employee has been on lay-off for 12 months (lay-off is defined as having the opportunity to work less than 900 hours during the 12 month period), and, at the end of that 12 month period, the Company has no plan to re-employ the employee during the three months following, the affected employee has an option of requesting a severance payment. Employees requesting a severance payment would lose their rights of recall under the agreement. The labour agreement between the Company and Pulp, Paper and Woodworkers of Canada Local 2 at Crofton, has similar provisions under which severance applies, although the 900 hour threshold does not apply. The Company estimated that should the conditions giving rise to severance at Elk Falls and Crofton be met, the potential severance payment would be approximately $19 million. The Company did not record a liability for this contingency as of December 31, 2009 as it had not determined what the future of these operations would be and could not know how many employees would request their severance, as opposed to retaining their recall rights, should they become eligible for severance in the future. Therefore, the likelihood, timing, and extent of any potential liability were not determinable. Subsequent to December 31, 2009, and as at March 10, 2010, 190 hourly employees at Elk Falls had requested severance payments, resulting in an aggregate severance charge of $11.5 million. The Company may not be able to restart the Elk Falls mill if all of the remaining hourly employees of this mill decide to forfeit their recall rights and request severances, in which case, the Company would consider permanently closing this mill.

In addition to the hourly employees on lay-off due to production curtailments, as at December 31, 2009, there were approximately 100 hourly employees who were on lay-off at the Company's Elk Falls, Port Alberni, and Powell River mills due to restructuring and other initiatives. These employees are entitled to rights of recall in the range of 12 to 42 months from the last day worked, but at any time may forfeit their rights of recall in exchange for severance payments. If all affected employees exercise their severance rights at some point and thereby forfeit their recall rights, the Company estimates that the total severance payment would be approximately $3.8 million. The Company did not record a liability for this contingency as of December 31, 2009 as the likelihood, timing, and extent of any potential liability were not determinable. Subsequent to December 31, 2009, and as of March 10, 2010, 41 hourly employees exercised their severance rights, resulting in an aggregate severance charge of $1.5 million.

In January 2010, Quebecor World (USA)'s litigation trustee ("Quebecor") filed a claim against the Company for alleged preferential transfers of approximately US$18.8 million. The claim seeks the return of payments made by Quebecor to the Company in the ordinary course of their trade relationship in the 90 days prior to Quebecor's Chapter 11 filing in December 2007. The Company is one of 1700 vendors of Quebecor who received payments totalling US$390 million during the preference period in which the litigation trustee has sought recovery. The claim is made pursuant to the U.S. Bankruptcy Code which allows recovery of certain transfer made by the bankrupt debtor within the 90 days prior to the bankruptcy filing, subject to a vendor's defenses. The Company intends to defend the claim and has been advised that it has a number of defenses available that are expected to eliminate or significantly reduce its financial exposure. Accordingly, the Company does not expect to incur any significant liability in connection with the Quebecor claim.

The Communications, Energy and Paperworkers Union of Canada Locals 1, 76, 592 and 686 (the "Locals"), representing hourly employees at the Company's Powell River and Port Alberni mills, have applied to the Labour Relations Board of B.C. for a declaration that the Company is responsible for certain post-retirement medical and extended health benefits for some retired employees who were represented by the Locals and who retired from MacMillan Bloedel Limited ("MB"), now doing business as Weyerhaeuser Company Ltd. ("Weyerhaeuser"). Pacifica Papers Inc. ("Pacifica") acquired the Powell River and Port Alberni mills from MB in 1998, and it was agreed as part of that transaction that MB would remain responsible for any benefits for eligible employees who retired prior to the acquisition by Pacifica of the mills. The Company subsequently amalgamated with Pacifica in 2001. The Locals claim that the contractual relationships between the Company, Pacifica and MB do not absolve the Company (as successor to Pacifica) from any obligations which may exist in respect of certain post-retirement benefits and that the successorship provisions of the Labour Relations Code imposed any such possible obligations on Pacifica at the time Pacifica acquired the mills. The Company does not agree with the Locals' position and will contest the Labour Board application. If the Locals' application is successful, the Company could become responsible for the post-retirement benefits of these retirees in addition to those for which the Company is already responsible for. These proceedings are at an early stage. The extent of the Company's liability, if any, cannot be determined at this time although the Company estimates that it would incur costs of between $2 million and $4 million annually to provide these additional benefits. In that event, the Company will seek indemnification from Weyerhaeuser.

On November 20, 2009, the arbitration proceeding relating to a 20-year energy services agreement with Island Cogeneration No. 2 Inc. ("ICP") was settled. This arbitration was a result of the Company's declaration of force majeure under the energy services agreement due to the permanent closure of the Company's Elk Falls pulp mill in November 2008 as a result of the unavailability of sawdust fibre. This settlement terminated the energy services agreement including the contingent liability for energy not purchased. Subject to subdivision approval, the Company has agreed to transfer to ICP land currently leased by ICP upon which its energy facility is located. The Company has also granted certain easements and access rights to ICP to facilitate the independent operation of the energy facility and eliminate the need for the Company to provide certain services to ICP. The Company recorded a $1.4 million loss on the settlement representing the fair value of the property to be transferred or leased at a nominal amount to ICP and the costs associated with the provision of services to ICP for 18 months.

31. SUBSEQUENT EVENT

The Company has evaluated its subsequent events to March 11, 2010.

On March 10, 2010, the Company exchanged US$318.7 million of its outstanding 8.625% senior notes due June 15, 2011 for US$280.4 million of new 11% senior secured notes due December 15, 2016. Upon the closing of the exchange offer, US$35.5 million of 8.625% senior notes maturing June 2011 remain outstanding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

32. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The following information is presented as required under Rule 3-10 of Regulation S-X, in connection with the Company's senior secured notes due 2011 and 2014. The Company has not presented separate financial statements and other disclosures concerning the guarantor subsidiaries because management has determined that such information will not be material to the holders of the senior notes; however, the following condensed consolidating financial information is being provided for each of the years ended December 31, 2009, 2008, and 2007. Investments in subsidiaries are accounted for on an equity basis. The principal elimination entries eliminate investments in subsidiaries and intercompany balances.

Supplemental Consolidating Balance Sheet as at December 31, 2009

	Catalyst Paper Corporation	Subsidiary guarantors	Subsidiary non-guarantors	Eliminating entries	Consolidated Catalyst Paper Corporation
Assets					
Current assets					
Cash and cash equivalents	$ 63.3	$ 13.9	$ 5.9	$ –	$ 83.1
Accounts receivable (note 8)	0.2	101.1	0.2	–	101.5
Inventories (note 9)	–	178.3	–	–	178.3
Prepaids and other (note 10)	13.9	10.9	0.4	–	25.2
	77.4	304.2	6.5	–	388.1
Property, plant and equipment (note 11)	1,085.2	464.7	114.8	–	1,664.7
Advances to related companies	173.3	388.6	1.8	(563.7)	–
Investments in related companies	596.0	–	–	(596.0)	–
Other assets (note 12)	22.8	51.4	–	(36.2)	38.0
	$ 1,954.7	$ 1,208.9	$ 123.1	$ (1,195.9)	$ 2,090.8
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities (note 13)	$ 29.2	$ 139.4	$ 4.7	$ –	$ 173.3
Current portion of long-term debt (note 14)	0.9	0.1	–	–	1.0
	30.1	139.5	4.7	–	174.3
Long-term debt (note 14)	647.9	13.8	112.9	–	774.6
Advances from related companies	388.6	152.1	23.0	(563.7)	–
Employee future benefits (note 15)	26.4	268.2	–	–	294.6
Other long-term obligations (note 16)	8.7	3.2	1.5	–	13.4
Future income taxes (note 17)	41.9	–	17.1	(36.2)	22.8
Deferred credits (note 18)	15.5	–	–	–	15.5
	1,159.1	576.8	159.2	(599.9)	1,295.2
Equity					
Shareholders' equity					
Common stock	1,035.0	678.0	(32.1)	(645.9)	1,035.0
Additional paid-in capital	16.4	228.2	4.7	(232.9)	16.4
Retained earnings (deficit)	(185.1)	(221.5)	(7.5)	229.0	(185.1)
Accumulated other comprehensive income (loss) (note 19)	(52.7)	(52.6)	(1.2)	53.8	(52.7)
	813.6	632.1	(36.1)	(596.0)	813.6
Non-controlling interest (deficit)	(18.0)	–	–	–	(18.0)
	795.6	632.1	(36.1)	(596.0)	795.6
	$ 1,954.7	$ 1,208.9	$ 123.1	$ (1,195.9)	$ 2,090.8

Supplemental Consolidating Statement of Earnings (Loss) for the year ended December 31, 2009

	Catalyst Paper Corporation	Subsidiary guarantors	Subsidiary non-guarantors	Eliminating entries	Consolidated Catalyst Paper Corporation
Sales	$ –	$ 1,203.6	$ 16.7	$ (18.6)	$ 1,201.7
Operating expenses					
Cost of sales, excluding depreciation and amortization	26.4	1,021.4	6.3	(18.6)	1,035.5
Depreciation and amortization	125.0	18.4	3.2	–	146.6
Selling, general and administrative	24.2	20.6	–	–	44.8
Restructuring (note 20)	–	17.9	–	–	17.9
Impairment (note 5)	–	17.4	–	–	17.4
	175.6	1,095.7	9.5	(18.6)	1,262.2
Operating earnings (loss)	(175.6)	107.9	7.2	–	(60.5)
Interest expense, net (note 21)	(37.8)	(19.6)	(11.9)	–	(69.3)
Gain on cancellation of long-term debt (note 14)	–	30.7	–	–	30.7
Foreign exchange gain on long-term debt	74.9	0.4	–	–	75.3
Equity earnings in Partnership	108.5	–	–	(108.5)	–
Other income (expense), net (note 22)	26.9	(36.4)	0.1	–	(9.4)
Earnings (loss) before income taxes	(3.1)	83.0	(4.6)	(108.5)	(33.2)
Income tax recovery (note 17)	(12.2)	(13.2)	(2.2)	–	(27.6)
Net earnings (loss)	9.1	96.2	(2.4)	(108.5)	(5.6)
Net (earnings) loss attributable to non-controlling interest (note 6)	1.2	–	–	–	1.2
Net earnings (loss) before equity in earnings (loss) of subsidiaries	10.3	96.2	(2.4)	(108.5)	(4.4)
Equity in earnings (loss) of subsidiaries	(14.7)	–	–	14.7	–
Net earnings (loss) attributable to the Company	$ (4.4)	$ 96.2	$ (2.4)	$ (93.8)	$ (4.4)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

Supplemental condensed Consolidating Statement of Cash Flows for the year ended December 31, 2009

	Catalyst Paper Corporation	Subsidiary guarantors	Subsidiary non-guarantors	Eliminating entries	Consolidated Catalyst Paper Corporation
Cash flows provided (used) by:					
Operations					
Cash flows provided (used) by operations	$ (40.5)	$ 242.9	$ (7.2)	$ (93.8)	$ 101.4
Investing					
Additions to property, plant and equipment	(1.7)	(9.3)	(0.5)	–	(11.5)
Proceeds from sale of property, plant and equipment	2.1	2.4	–	–	4.5
Decrease (increase) in other assets	(9.3)	13.4	–	–	4.1
Cash flows provided (used) by investing activities	(8.9)	6.5	(0.5)	–	(2.9)
Financing					
Decrease in revolving loan and loan payable	(2.1)	(43.2)	–	(0.3)	(45.6)
Repayment of long-term debt (note 14)	–	–	(75.7)	–	(75.7)
Proceeds from long-term debt (note 14)	–	–	95.0	–	95.0
Proceeds on termination of debt foreign current contracts	34.7	–	–	–	34.7
Settlement on purchase of debt securities (note 14)	(26.9)	–	–	–	(26.9)
Deferred financing costs	1.1	(1.1)	(0.9)	–	(0.9)
Decrease in other long-term debt	(0.8)	(0.2)	–	–	(1.0)
Increase (decrease) in advances to related companies	(178.5)	88.4	(6.6)	96.7	–
Dividends received (paid)	26.1	(26.1)	–	–	–
Distribution received (paid)	259.1	(258.5)	(0.6)	–	–
Cash flows provided (used) by financing activities	112.7	(240.7)	11.2	96.4	(20.4)
Cash and cash equivalents, increase in the year	63.3	8.7	3.5	2.6	78.1
Cash and cash equivalents, beginning of year	–	5.2	2.4	(2.6)	5.0
Cash and cash equivalents, end of year	$ 63.3	$ 13.9	$ 5.9	$ –	$ 83.1

Supplemental Consolidating Balance Sheet as at December 31, 2008

	Catalyst Paper Corporation	Subsidiary guarantors	Subsidiary non-guarantors	Eliminating entries	Consolidated Catalyst Paper Corporation
Assets					
Current assets					
Cash and cash equivalents	$ –	$ 5.2	$ 2.4	$ (2.6)	$ 5.0
Accounts receivable (note 8)	1.1	219.7	0.9	–	221.7
Inventories (note 9)	–	211.4	–	–	211.4
Prepaids and other (note 10)	17.6	14.8	0.4	–	32.8
	18.7	451.1	3.7	(2.6)	470.9
Property, plant and equipment (note 11)	1,211.0	525.9	117.5	–	1,854.4
Advances to related companies	122.3	356.2	0.8	(479.3)	–
Investments in related companies	804.1	–	–	(804.1)	–
Other assets (note 12)	53.5	28.0	–	(16.5)	65.0
	$ 2,209.6	$ 1,361.2	$ 122.0	$ (1,302.5)	$ 2,390.3
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities (note 13)	$ 31.7	$ 227.9	$ 9.8	$ –	$ 269.4
Current portion of long-term debt (note 14)	3.4	0.2	74.8	(2.6)	75.8
	35.1	228.1	84.6	(2.6)	345.2
Long-term debt (note 14)	815.3	59.3	19.5	–	894.1
Advances from related companies	356.2	94.5	28.6	(479.3)	–
Employee future benefits (note 15)	123.8	139.4	–	–	263.2
Other long-term obligations (note 16)	7.9	3.9	1.5	–	13.3
Future income taxes (note 17)	46.1	–	19.7	(16.5)	49.3
Deferred credits (note 18)	18.6	–	–	–	18.6
	1,403.0	525.2	153.9	(498.4)	1,583.7
Equity					
Shareholders' equity					
Common stock	1,035.0	678.0	(32.1)	(645.9)	1,035.0
Additional paid-in capital	14.6	228.2	4.7	(232.9)	14.6
Retained earnings (deficit)	(180.7)	(34.8)	(4.5)	39.3	(180.7)
Accumulated other comprehensive income (loss) (note 19)	(46.4)	(35.4)	–	35.4	(46.4)
	822.5	836.0	(31.9)	(804.1)	822.5
Non-controlling interest (deficit)	(15.9)	–	–	–	(15.9)
	806.6	836.0	(31.9)	(804.1)	806.6
	$ 2,209.6	$ 1,361.2	$ 122.0	$ (1,302.5)	$ 2,390.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

Supplemental Consolidating Statement of Earnings (Loss) for the year ended December 31, 2008

	Catalyst Paper Corporation	Subsidiary guarantors	Subsidiary non-guarantors	Eliminating entries	Consolidated Catalyst Paper Corporation
Sales	$ –	$ 1,849.4	$ 18.6	$ (18.6)	$ 1,849.4
Operating expenses					
Cost of sales, excluding depreciation and amortization	32.7	1,594.0	4.9	(18.6)	1,613.0
Depreciation and amortization	122.8	39.8	3.2	–	165.8
Selling, general and administrative	24.2	22.4	0.3	–	46.9
Restructuring (note 20)	–	30.1	–	–	30.1
Impairment (note 5)	–	151.0	–	–	151.0
	179.7	1,837.3	8.4	(18.6)	2,006.8
Operating earnings (loss)	(179.7)	12.1	10.2	–	(157.4)
Interest expense, net (note 21)	(36.4)	(28.2)	(10.4)	–	(75.0)
Foreign exchange loss on long-term debt	(81.5)	(0.7)	–	–	(82.2)
Equity earnings in Partnership	116.8	–	–	(116.8)	–
Other income, net (note 22)	2.9	1.5	0.5	–	4.9
Earnings (loss) before income taxes	(177.9)	(15.3)	0.3	(116.8)	(309.7)
Income tax recovery (note 17)	(60.1)	(29.7)	(0.9)	–	(90.7)
Net earnings (loss)	(117.8)	14.4	1.2	(116.8)	(219.0)
Net (earnings) loss attributable to non-controlling interest (note 6)	(0.8)	–	–	–	(0.8)
Net earnings (loss) before equity in earnings (loss) of subsidiaries	(118.6)	14.4	1.2	(116.8)	(219.8)
Equity in earnings (loss) of subsidiaries	(101.2)	–	–	101.2	–
Net earnings (loss) attributable to the Company	$ (219.8)	$ 14.4	$ 1.2	$ (15.6)	$ (219.8)

Supplemental condensed Consolidating Statement of Cash Flows for the year ended December 31, 2008

	Catalyst Paper Corporation	Subsidiary guarantors	Subsidiary non-guarantors	Eliminating entries	Consolidated Catalyst Paper Corporation
Cash flows provided (used) by:					
Operations					
Cash flows provided by operations	$ 41.8	$ 49.8	$ 2.1	$ (15.6)	$ 78.1
Investing					
Acquisition of Snowflake newsprint mill (note 7)	–	(172.2)	–	–	(172.2)
Additions to property, plant and equipment	(22.1)	(19.1)	(0.7)	–	(41.9)
Proceeds from sale of property, plant and equipment	–	2.2	–	–	2.2
Proceeds from termination of interest rate swaps	–	7.6	–	–	7.6
Decrease (increase) in other assets	0.5	(1.5)	–	–	(1.0)
Investment in related companies	(180.9)	–	–	180.9	–
Cash flows used by investing activities	(202.5)	(183.0)	(0.7)	180.9	(205.3)
Financing					
Issue of shares, net of share issue costs (note 7)	121.1	180.9	–	(180.9)	121.1
Increase in revolving loan	31.0	31.7	–	(2.6)	60.1
Repayment of revolving operating loan	(1.3)	(45.8)	–	–	(47.1)
Deferred financing costs	(5.1)	(0.4)	–	–	(5.5)
Increase (decrease) in other long-term debt	2.9	1.2	(0.5)	–	3.6
Increase (decrease) in advances to related companies	(236.5)	218.2	(0.5)	18.8	–
Dividends received (paid)	5.7	(5.7)	–	–	–
Distribution received (paid)	229.6	(228.4)	(1.2)	–	–
Share redemption	13.3	(13.3)	–	–	–
Cash flows provided (used) by financing activities	160.7	138.4	(2.2)	(164.7)	132.2
Cash and cash equivalents, increase (decrease) during year	–	5.2	(0.8)	0.6	5.0
Cash and cash equivalents, beginning of year	–	–	3.2	(3.2)	–
Cash and cash equivalents, end of year	$ –	$ 5.2	$ 2.4	$ (2.6)	$ 5.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

Supplemental Consolidating Balance Sheet as at December 31, 2007

	Catalyst Paper Corporation	Subsidiary guarantors	Subsidiary non-guarantors	Eliminating entries	Consolidated Catalyst Paper Corporation
Assets					
Current assets					
Cash and cash equivalents	$ –	$ –	$ 3.2	$ (3.2)	$ –
Accounts receivable	3.8	208.9	0.4	–	213.1
Inventories	–	235.7	–	–	235.7
Prepaids and other	5.3	35.0	0.4	–	40.7
	9.1	479.6	4.0	(3.2)	489.5
Property, plant and equipment	1,305.4	487.5	119.9	–	1,912.8
Advances to related companies	202.1	525.1	1.7	(728.9)	–
Investments in related companies	809.4	–	–	(809.4)	–
Other assets	22.9	13.1	–	–	36.0
	$ 2,348.9	$ 1,505.3	$ 125.6	$ (1,541.5)	$ 2,438.3
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	$ 28.7	$ 228.8	$ 10.7	$ –	$ 268.2
Current portion of long-term debt	0.7	–	0.5	–	1.2
	29.4	228.8	11.2	–	269.4
Long-term debt	657.1	51.0	94.1	(3.2)	799.0
Advances from related companies	525.1	173.8	30.0	(728.9)	–
Employee future benefits	124.7	182.1	–	–	306.8
Other long-term obligation	11.5	13.9	1.5	–	26.9
Future income taxes	88.8	14.4	20.7	–	123.9
Deferred credits	21.7	–	–	–	21.7
	1,458.3	664.0	157.5	(732.1)	1,547.7
Equity					
Shareholders' equity					
Common stock	913.9	590.8	(32.1)	(558.7)	913.9
Additional paid-in capital	12.1	147.8	4.7	(152.5)	12.1
Retained earnings (deficit)	41.7	196.7	(4.5)	(192.2)	41.7
Accumulated other comprehensive income (loss)	(61.0)	(94.0)	–	94.0	(61.0)
	906.7	841.3	(31.9)	(809.4)	906.7
Non-controlling interest (deficit)	(16.1)	–	–	–	(16.1)
	890.6	841.3	(31.9)	(809.4)	890.6
	$ 2,348.9	$ 1,505.3	$ 125.6	$ (1,541.5)	$ 2,438.3

Supplemental Consolidating Statement of Earnings (Loss) for the year ended December 31, 2007

	Catalyst Paper Corporation	Subsidiary guarantors	Subsidiary non-guarantors	Eliminating entries	Consolidated Catalyst Paper Corporation
Sales	$ –	$ 1,714.7	$ 19.1	$ (19.2)	$ 1,714.6
Operating expenses					
Cost of sales, excluding depreciation and amortization	30.6	1,558.1	5.1	(19.2)	1,574.6
Depreciation and amortization	114.5	58.6	3.3	–	176.4
Selling, general and administrative	33.5	14.8	–	–	48.3
Restructuring (note 20)	–	64.7	–	–	64.7
	178.6	1,696.2	8.4	(19.2)	1,864.0
Operating earnings (loss)	(178.6)	18.5	10.7	–	(149.4)
Interest expense, net (note 21)	(36.2)	(23.2)	(11.3)	–	(70.7)
Foreign exchange gain on long-term debt	103.9	–	–	–	103.9
Equity earnings in partnership	54.3	–	–	(54.3)	–
Other income (expense), net (note 22)	(18.0)	6.8	(4.1)	–	(15.3)
Earnings (loss) before income taxes	(74.6)	2.1	(4.7)	(54.3)	(131.5)
Income tax recovery (note 17)	(66.0)	(24.3)	(4.8)	–	(95.1)
Net earnings (loss)	(8.6)	26.4	0.1	(54.3)	(36.4)
Net (earnings) loss attributable to non-controlling interest	(0.1)	–	–	–	(0.1)
Net earnings (loss) before equity in earnings (loss) of subsidiaries	(8.7)	26.4	0.1	(54.3)	(36.5)
Equity in earnings (loss) of subsidiaries	(27.8)	–	–	27.8	–
Net earnings (loss) attributable to the Company	$ (36.5)	$ 26.4	$ 0.1	$ (26.5)	$ (36.5)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

Supplemental condensed Consolidating Statement of Cash Flows for the year ended December 31, 2007

	Catalyst Paper Corporation	Subsidiary guarantors	Subsidiary non-guarantors	Eliminating entries	Consolidated Catalyst Paper Corporation
Cash flows provided (used) by:					
Operations					
Cash flows provided (used) by operations	$ (308.4)	$ 326.7	$ 5.5	$ (26.5)	$ (2.7)
Investing					
Additions to property, plant and equipment	(62.1)	(16.5)	(7.2)	–	(85.8)
Proceeds from sale of property, plant and equipment	3.4	3.1	–	–	6.5
Investment in related companies	2.2	–	–	(2.2)	–
Increase in other assets	(1.5)	(2.9)	–	–	(4.4)
Cash flows used by investing activities	(58.0)	(16.3)	(7.2)	(2.2)	(83.7)
Financing					
Increase (decrease) in revolving loan and loan payable	2.1	47.6	0.5	(3.2)	47.0
Increase in other long-term debt	3.2	0.4	–	–	3.6
Issue of shares from exercise of stock options	0.3	–	–	–	0.3
Increase (decrease) in advances to related companies	319.3	(350.7)	2.7	28.7	–
Dividends received (paid)	11.8	(11.8)	–	–	–
Distribution received (paid)	1.3	–	(1.3)	–	–
Issue of shares, net of share issue costs	–	(0.8)	0.8	–	–
Cash flows provided (used) by financing activities	338.0	(315.3)	2.7	25.5	50.9
Cash and cash equivalents, increase (decrease) during year	(28.4)	(4.9)	1.0	(3.2)	(35.5)
Cash and cash equivalents, beginning of year	28.4	4.9	2.2	–	35.5
Cash and cash equivalents, end of year	$ –	$ –	$ 3.2	$ (3.2)	$ –

33. RECONCILIATION OF UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which differ in some respects from Canadian GAAP. The following are the significant measurement and disclosure differences between U.S. GAAP and Canadian GAAP:

Net Earnings Adjustments

The following table provides a reconciliation of the net earnings (loss) from U.S. GAAP to Canadian GAAP:

Years ended December 31,	**2009**	2008	2007
Net earnings (loss) as reported under U.S. GAAP	**$ (5.6)**	$ (219.0)	$ (36.4)
Net (earnings) loss attributable to non-controlling interest (a)	**1.2**	(0.8)	(0.1)
Foreign exchange gain on hedge of net investment (b)	**–**	(2.4)	–
Amortization related to hedge of net investment (b)	**0.2**	–	–
Income tax effect of rate change on employee future benefits	**0.7**	1.1	4.9
Net earnings (loss) in accordance with Canadian GAAP	**(3.5)**	(221.1)	(31.6)
Other comprehensive income (loss), net of taxes:			
Other comprehensive income (loss) in accordance with U.S. GAAP	**(6.9)**	14.6	22.4
Other comprehensive loss attributable to non-controlling interest	**0.6**	–	–
Reclassification of amortization of employee future benefits included in pension cost, net of taxes of $2.5 million (2008 – $3.6 million; 2007 – $5.1 million) (c)	**(6.8)**	(10.3)	(13.9)
Employee future benefits liability adjustment net of taxes of $9.9 million (2008 – $8.1 million; 2007 – $2.2 million) (c)	**26.2**	(22.8)	5.8
Comprehensive income (loss) in accordance with Canadian GAAP	**$ 9.6**	$ (239.6)	$ (17.3)
Basic and diluted net earnings (loss) per share in accordance with Canadian GAAP (in dollars)	**$ (0.01)**	$ (0.66)	$ (0.15)
Basic and diluted weighted average number of shares in accordance with Canadian GAAP (in millions)	**381.8**	336.1	214.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

Consolidated Statements of Earnings and Comprehensive Income (Loss) under U.S. GAAP and Canadian GAAP

	2009		2008		2007	
Years ended December 31,	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
Sales	**$ 1,201.7**	**$ 1,201.7**	$ 1,849.4	$ 1,849.4	$ 1,714.6	$ 1,714.6
Operating expenses						
Cost of sales, excluding depreciation and amortization	**1,035.5**	**1,035.5**	1,613.0	1,613.0	1,574.6	1,574.6
Depreciation and amortization	**146.6**	**146.4**	165.8	165.8	176.4	176.4
Selling, general and administrative	**44.8**	**44.8**	46.9	46.9	48.3	48.3
Restructuring and change-of-control	**17.9**	**17.9**	30.1	30.1	64.7	64.7
Impairment	**17.4**	**17.4**	151.0	151.0	–	–
	1,262.2	**1,262.0**	2,006.8	2,006.8	1,864.0	1,864.0
Operating earnings (loss)	**(60.5)**	**(60.3)**	(157.4)	(157.4)	(149.4)	(149.4)
Interest expense, net	**(69.3)**	**(69.3)**	(75.0)	(75.0)	(70.7)	(70.7)
Gain on cancellation of long-term debt	**30.7**	**30.7**	–	–	–	–
Foreign exchange gain (loss) on long-term debt	**75.3**	**75.3**	(82.2)	(82.2)	103.9	103.9
Other income (expense), net	**(9.4)**	**(9.4)**	4.9	2.5	(15.3)	(15.3)
Earnings (loss) before income taxes	**(33.2)**	**(33.0)**	(309.7)	(312.1)	(131.5)	(131.5)
Income tax recovery	**(27.6)**	**(28.3)**	(90.7)	(91.8)	(95.1)	(100.0)
Net earnings (loss) before non-controlling interest – Canadian GAAP	**N/A**	**(4.7)**	N/A	(220.3)	N/A	(31.5)
Non-controlling interest – Canadian GAAP	**N/A**	**1.2**	N/A	(0.8)	N/A	(0.1)
Net earnings (loss)	**(5.6)**	**(3.5)**	(219.0)	(221.1)	(36.4)	(31.6)
Net (earnings) loss attributable to non-controlling interest – U.S. GAAP	**1.2**	**N/A**	(0.8)	N/A	(0.1)	N/A
Net earnings (loss) attributable to the Company – U.S. GAAP	**$ (4.4)**	**$ N/A**	$ (219.8)	$ N/A	$ (36.5)	$ N/A
Other comprehensive income (loss), before non-controlling interest – Canadian GAAP	**N/A**	**12.5**	N/A	(18.5)	N/A	14.3
Other comprehensive income (loss), net of taxes – U.S. GAAP	**$ (6.9)**	**$ N/A**	$ 14.6	$ N/A	$ 22.4	$ N/A
Other comprehensive loss attributable to non-controlling interest	**0.6**	**0.6**	–	–	–	–
Comprehensive income (loss) – Canadian GAAP	**N/A**	**9.6**	N/A	(239.6)	N/A	(17.3)
Comprehensive income (loss) attributable to the Company – U.S. GAAP	**(10.7)**	**N/A**	(205.2)	N/A	(14.1)	N/A
Basic and diluted net earnings (loss) per share (in dollars)	**$ (0.01)**	**$ (0.01)**	$ (0.65)	$ (0.66)	$ (0.17)	$ (0.15)
Weighted average common shares outstanding (in millions)	**$ 381.8**	**$ 381.8**	$ 336.1	$ 336.1	$ 214.7	$ 214.7

Balance Sheet Adjustments

The following table provides a reconciliation of the consolidated balance sheet components from U.S. GAAP to Canadian GAAP:

As at December 31,	2009	2008
Property, plant and equipment – U.S. GAAP	**$ 1,664.7**	$ 1,854.4
Foreign exchange gain on hedge of net investment, net of amortization (b)	**(2.2)**	(2.4)
Property, plant and equipment – Canadian GAAP	**$ 1,662.5**	$ 1,852.0
Other assets – U.S. GAAP	**$ 38.0**	$ 65.0
Employee future benefits (c)	**35.2**	30.8
Tax effect of employee future benefits adjustment	**(1.9)**	–
Deferred financing costs (e)	**(6.6)**	(11.2)
Non-controlling interest deficit (a)	**18.0**	15.9
Other assets – Canadian GAAP	**$ 82.7**	$ 100.5
Long-term debt – U.S. GAAP	**$ 774.6**	$ 894.1
Deferred financing costs (e)	**(6.6)**	(11.2)
Long-term debt – Canadian GAAP	**$ 768.0**	$ 882.9
Employee future benefits – U.S. GAAP	**$ 294.6**	$ 263.2
Employee future benefits (c)	**(59.0)**	(36.6)
Employee future benefits – Canadian GAAP	**$ 235.6**	$ 226.6
Future income taxes – U.S. GAAP	**$ 22.8**	$ 49.3
Tax effect of employee future benefits adjustment	**31.4**	25.9
Tax effect of other adjustments	**(9.1)**	(8.4)
Future income taxes – Canadian GAAP	**$ 45.1**	$ 66.8
Equity – U.S. GAAP	**$ 795.6**	$ 806.6
Foreign exchange gain on hedge of net investment, net of amortization (b)	**(2.2)**	(2.4)
Employee future benefits (c)	**94.2**	67.4
Tax effect of employee future benefits adjustment	**(33.3)**	(25.9)
Tax effect of other adjustments	**9.1**	8.4
Non-controlling interest deficit (a)	**18.0**	15.9
Equity – Canadian GAAP	**$ 881.4**	$ 870.0

The following table provides a reconciliation of AOCI from U.S. GAAP to Canadian GAAP:

As at December 31,	2009	2008
Accumulated other comprehensive income (loss) – U.S. GAAP	**$ (52.7)**	$ (46.4)
Employee future benefits (b)	**60.9**	41.5
Accumulated other comprehensive income (loss) – Canadian GAAP	**$ 8.2**	$ (4.9)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

Consolidated Balance Sheets under U.S. GAAP and Canadian GAAP

	2009		2008	
As at December 31,	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
Assets				
Current assets				
Cash and cash equivalents	$ 83.1	$ 83.1	$ 5.0	$ 5.0
Accounts receivable	101.5	101.5	221.7	221.7
Inventories	178.3	178.3	211.4	211.4
Prepaids and other	25.2	25.2	32.8	32.8
	388.1	388.1	470.9	470.9
Property, plant and equipment	1,664.7	1,662.5	1,854.4	1,852.0
Other assets	38.0	82.7	65.0	100.5
	$ 2,090.8	$ 2,133.3	$ 2,390.3	$ 2,423.4
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$ 173.3	$ 173.3	$ 269.4	$ 269.4
Current portion of long-term debt	1.0	1.0	75.8	75.8
	174.3	174.3	345.2	345.2
Long-term debt	774.6	768.0	894.1	882.9
Employee future benefits	294.6	235.6	263.2	226.6
Other long-term obligations	13.4	13.4	13.3	13.3
Future income taxes	22.8	45.1	49.3	66.8
Deferred credits	15.5	15.5	18.6	18.6
	1,295.2	1,251.9	1,583.7	1,553.4
Equity				
Shareholders' equity				
Common stock	1,035.0	1,035.0	1,035.0	1,035.0
Additional paid-in capital	16.4	16.4	14.6	14.6
Retained earnings (deficit)	(185.1)	(178.2)	(180.7)	(174.7)
Accumulated other comprehensive income (loss)	(52.7)	8.2	(46.4)	(4.9)
	813.6	881.4	822.5	870.0
Non-controlling interest (deficit)	(18.0)	–	(15.9)	–
	795.6	881.4	806.6	870.0
	$ 2,090.8	$ 2,133.3	$ 2,390.3	$ 2,423.4

(a) Non-controlling Interest

Under U.S. GAAP, non-controlling interest's equity or deficit is reported as a separate component within equity of the consolidated balance sheet and consolidated net earnings (loss) and other comprehensive income (loss) attributable to the Company and to the non-controlling interest is clearly identified and presented on the face of the consolidated statements of earnings (loss), comprehensive income (loss), and equity. Under Canadian GAAP, the Company includes non-controlling interest's equity or deficit in "Other assets" and the non-controlling interest's share of earnings or loss is excluded from consolidated net earnings (loss).

(b) Foreign Exchange on Hedge of Net Investment

Under U.S. GAAP, the foreign exchange gain on a hedge of a net investment is recognized in earnings, and accordingly, the net investment acquired is not reduced by the amount of the gain. Under Canadian GAAP, the Company designated a forward contract as a hedge of the purchase price on the acquisition of the Snowflake newsprint mill, and accounted for the respective foreign exchange gain as a reduction of the net investment.

(c) Employee Future Benefits

U.S. GAAP requires the recognition of the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in the balance sheet and requires that changes in that funded status in the year in which the changes occur be recorded in other comprehensive income (loss). As a result, as amounts that relate to the funded status are recognized in earnings through pension expense, the amounts are reclassified out of accumulated other comprehensive income (loss). Canadian GAAP does not require recognition of the overfunded or underfunded status of a defined benefit post-retirement plan. There is no GAAP difference between U.S. and Canada in the determination of pension and other employee future benefits expense.

Reconciliation of the funded status of the benefit plans to the amounts in the consolidated balance sheets in accordance with Canadian GAAP

The following table presents the difference between the fair value of the defined benefit pension assets and the actuarially determined accrued benefit obligations as at December 31, 2009 and 2008 in accordance with Canadian GAAP. This difference is also referred to as either the deficit or surplus, as the case may be, or the funded status of the plans.

The table also reconciles the amount of the surplus or deficit (funded status) to the accrued benefit obligation in the consolidated balance sheets, in accordance with Canadian GAAP, with the difference representing the portion of the surplus or deficit not yet recognized for accounting purposes. Deferred recognition is a key element of the Canadian GAAP pension accounting. This approach allows for a gradual recognition of changes in accrued benefit obligations and fund performance over the expected average remaining service life of the employee group covered by the plans.

	Pension benefit plans		Other benefit plans	
	2009	2008	**2009**	2008
Accrued benefit obligation at end of year	**$ 360.7**	$ 334.3	**$ 189.3**	$ 163.7
Fair value of plan assets at end of year	**241.6**	220.6	**–**	–
Funded status-deficit recognized in the U.S. GAAP consolidated balance sheets	**(119.1)**	(113.7)	**(189.3)**	(163.7)
Unrecognized prior service (credits) costs	**4.7**	5.2	**(18.5)**	(1.5)
Unrecognized actuarial (gains) losses	**92.8**	86.7	**15.0**	(22.6)
Accrued benefit obligation recognized in the Canadian GAAP consolidated balance sheets	**$ (21.6)**	$ (21.8)	**$ (192.8)**	$ (187.8)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in millions of Canadian dollars, except where otherwise stated)

Classification of accrued obligations in accordance with Canadian GAAP

The accrued benefit obligation determined in accordance with Canadian GAAP is included in the Company's balance sheet as follows:

	Pension benefit plans		Other benefit plans	
	2009	2008	**2009**	2008
Other assets	**$ 35.4**	$ 31.0	**$ –**	$ –
Accounts payable and accrued liabilities	**(6.8)**	(7.3)	**(7.3)**	(6.7)
Employee future benefits	**(50.2)**	(45.5)	**(185.5)**	(181.1)
Accrued benefit obligation recognized in the consolidated balance sheets	**$ (21.6)**	$ (21.8)	**$ (192.8)**	$ (187.8)

(d) Deferred Financing Costs

Under U.S. GAAP, debt issue costs are reported on the balance sheet as deferred charges in "Other assets." Under Canadian GAAP, debt issue costs related to the Company's senior notes are netted against the carrying value of long-term debt on the consolidated balance sheet.

(e) Consolidated Cash Flows

Under Canadian GAAP, the consolidated cash flows would not be significantly different from the presentation under U.S. GAAP, except that Canadian GAAP allows sub-totals within cash flows provided by operations.

(f) Recently Implemented Accounting Standards

In February 2008, the CICA issued Section 3064, "Goodwill and intangible assets" which replaced existing Section 3062, "Goodwill and other intangible assets" and Section 3450, "Research and development." The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company does not have any goodwill and other intangible assets and as such, the new standard did not have any impact on the Company's consolidated financial statements.

COMPARATIVE REVIEW

CONSOLIDATED BALANCE SHEETS

As at December 31,

(In millions of Canadian dollars)	2009	2008	2007	2006	2005	2004	2003	2002	2001
Assets									
Current assets									
Cash and cash equivalents	**$ 83.1**	$ 5.0	$ –	$ 35.5	$ –	$ 26.0	$ –	$ –	$ 104.8
Marketable securities	**–**	–	–	–	–	–	–	–	34.4
Accounts receivable	**101.5**	221.7	213.1	277.9	246.7	236.8	238.2	279.1	309.2
Inventories	**178.3**	211.4	231.9	241.2	245.7	258.1	235.9	242.7	230.5
Prepaids and other	**25.2**	32.8	40.7	10.5	35.0	62.3	84.3	9.2	9.4
	388.1	470.9	485.7	565.1	527.4	583.2	558.4	531.0	688.3
Property, plant and equipment	**1,664.7**	1,854.4	1,912.8	2,023.1	2,139.3	2,172.9	2,290.2	2,326.6	2,416.4
Other assets	**38.0**	65.0	36.0	27.3	28.5	32.9	37.1	71.0	47.7
	$2,090.8	$2,390.3	$2,434.5	$2,615.5	$2,695.2	$2,789.0	$2,885.7	$2,928.6	$3,152.4
Liabilities									
Current liabilities									
Accounts payable and accrued liabilities	**$ 173.3**	$ 269.4	$ 268.2	$ 292.1	$ 278.6	$ 284.8	$ 266.6	$ 311.7	$ 334.1
Current portion of long-term debt	**1.0**	75.8	1.2	1.8	0.8	0.7	0.7	0.7	10.7
	174.3	345.2	269.4	293.9	279.4	285.5	267.3	312.4	344.8
Long-term debt	**774.6**	894.1	799.0	857.7	866.6	829.2	850.9	891.6	1,163.9
Employee future benefits	**294.6**	263.2	306.8	309.1	235.4	207.6	221.8	197.7	145.3
Other long-term obligations	**13.4**	13.3	26.9	23.1	31.5	57.0	45.6	7.9	11.1
Future income taxes/deferred credits	**38.3**	67.9	144.4	232.2	312.1	365.7	404.0	405.3	481.9
	1,295.2	1,583.7	1,546.5	1,716.0	1,725.0	1,745.0	1,789.6	1,814.9	2,147.0
Equity									
Shareholders' equity									
Common stock	**1,035.0**	1,035.0	913.9	913.6	913.6	913.6	913.6	884.6	673.1
Additional paid-in-capital	**16.4**	14.6	12.1	9.3	7.3	5.4	–	–	–
Retained earnings (deficit)	**(185.1)**	(180.7)	39.1	75.6	102.8	152.2	206.8	250.3	335.0
Accumulated other comprehensive income (loss)	**(52.7)**	(46.4)	(61.0)	(83.4)	(37.1)	(27.2)	(24.3)	(21.2)	(2.7)
	813.6	822.5	904.1	915.1	986.6	1,044.0	1,096.1	1,113.7	1,005.4
Non-controlling interest (deficit)	**(18.0)**	(15.9)	(16.1)	(15.6)	(16.4)	–	–	–	–
	795.6	806.6	888.0	899.5	970.2	1,044.0	1,096.1	1,113.7	1,005.4
	$2,090.8	$2,390.3	$2,434.5	$2,615.5	$2,695.2	$2,789.0	$2,885.7	$2,928.6	$3,152.4

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31,

(In millions of Canadian dollars)	2009	2008	2007	2006	2005	2004	2003	2002	2001
Sales	**$1,201.7**	$1,849.4	$1,714.6	$1,873.2	$1,791.5	$1,855.4	$1,888.0	$1,728.6	$1,527.0
Operating expenses									
Cost of sales, excluding depreciation and amortization	**1,035.5**	1,613.0	1,574.6	1,611.9	1,604.6	1,678.2	1,683.9	1,582.1	1,286.6
Depreciation and amortization	**146.6**	165.8	176.4	183.7	180.3	184.1	189.9	178.5	131.2
Selling, general and administrative	**44.8**	46.9	48.3	62.2	57.7	51.1	54.7	65.3	63.6
Restructuring and change-of-control	**17.9**	30.1	64.7	–	6.7	–	–	–	–
Impairment	**17.4**	151.0	–	23.4	–	–	–	–	–
	1,262.2	2,006.8	1,864.0	1,881.2	1,849.3	1,913.4	1,928.5	1,825.9	1,481.4
Operating earnings (loss)	**(60.5)**	(157.4)	(149.4)	(8.0)	(57.8)	(58.0)	(40.5)	(97.3)	45.6
Interest income (expense), net	**(69.3)**	(75.0)	(70.7)	(73.5)	(76.0)	(74.9)	(75.0)	(76.2)	0.9
Gain on cancellation of long-term debt	**30.7**	–	–	–	–	–	–	–	–
Foreign exchange gain (loss) on long-term debt	**75.3**	(82.2)	103.9	(1.0)	20.1	45.1	50.9	45.9	(27.8)
Write-down of property, plant and equipment	**–**	–	–	–	–	–	(14.2)	–	–
Loss on repayment of long-term debt	**–**	–	–	–	–	(5.2)	–	–	–
Other income (expense), net	**(9.4)**	4.9	(15.3)	1.8	4.5	1.2	(3.9)	(13.3)	(40.2)
Earnings (loss) before income taxes	**(33.2)**	(309.7)	(131.5)	(80.7)	(109.2)	(91.8)	(82.7)	(140.9)	(21.5)
Income tax recovery	**(27.6)**	(90.7)	(95.1)	(55.0)	(59.4)	(39.8)	(39.2)	(56.2)	(37.1)
Net earnings (loss)	**(5.6)**	(219.0)	(36.4)	(25.7)	(49.8)	(52.0)	(43.5)	(84.7)	15.6
Net (earnings) loss attributable to non-controlling interest	**1.2**	(0.8)	(0.1)	(1.5)	(0.6)	–	–	–	–
Net earnings (loss) attributable to the Company	**$ (4.4)**	$ (219.8)	$ (36.5)	$ (27.2)	$ (50.4)	$ (52.0)	$ (43.5)	$ (84.7)	$ 15.6

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,
(In millions of Canadian dollars)

	2009	2008	2007	2006	2005	2004	2003	2002	2001
Cash flows provided (used) by:									
Operations									
Net earnings (loss)	**$ (5.6)**	$ (219.0)	$ (36.4)	$ (25.7)	$ (49.8)	$ (52.0)	$ (43.5)	$ (84.7)	$ 15.6
Items not requiring (providing) cash									
Depreciation and amortization	**146.6**	165.8	176.4	183.7	180.3	184.1	189.9	178.5	131.2
Impairment or write-down on property, plant and equipment	**17.4**	151.0	–	23.4	–	–	14.2	–	–
Future income taxes	**(26.6)**	(92.4)	(95.8)	(57.1)	(64.4)	(43.0)	(45.1)	(71.9)	(23.6)
Foreign exchange loss (gain) on long-term debt	**(75.3)**	82.2	(103.9)	0.3	(24.7)	(53.5)	(58.2)	(12.3)	17.1
Gain on cancellation of long-term debt	**(30.7)**	–	–	–	–	–	–	–	–
Employee future benefits, expense over cash contributions	**4.3**	2.9	6.7	6.4	(0.2)	5.2	19.8	13.9	4.9
Increase (decrease) in other long-term obligations	**(0.5)**	(5.1)	7.5	0.9	(7.4)	(11.4)	(14.0)	(11.6)	–
Loss (gain) on disposal of property, plant and equipment	**3.9**	(0.4)	13.6	(1.1)	1.6	1.1	0.7	(0.3)	30.2
Lower of cost or market write-down of inventories	**5.3**	12.3	2.6	0.8	2.8	2.3	0.8	1.8	1.7
Derivative financial instruments	**(22.0)**	18.4	(24.4)	9.7	37.3	31.8	(60.2)	(58.2)	44.8
Other	**(10.8)**	(2.5)	2.7	(6.5)	(2.8)	(3.9)	(17.0)	6.7	13.1
Changes in non-cash working capital	**95.4**	(35.1)	48.3	(7.6)	(12.0)	(25.9)	23.4	25.8	31.2
Cash flows provided (used) by operations	**101.4**	78.1	(2.7)	127.2	60.7	34.8	10.8	(12.3)	266.2
Investing									
Acquisition of Snowflake newsprint mill	**–**	(172.2)	–	–	–	–	–	–	–
Acquisition of paper recycling business	**–**	–	–	–	–	–	(32.1)	–	–
Acquisition of Pacifica Papers Inc.	**–**	–	–	–	–	–	–	–	(74.1)
Additions to property, plant and equipment	**(11.5)**	(41.9)	(85.8)	(93.2)	(95.2)	(68.0)	(81.4)	(82.2)	(92.7)
Proceeds from sale of marketable securities	**–**	–	–	–	–	–	–	39.2	–
Proceeds from sale of property, plant and equipment	**4.5**	2.2	6.5	3.5	3.5	0.5	0.4	1.5	0.7
Proceeds from sale of Mackenzie pulp operation	**–**	–	–	–	–	–	–	–	103.8
Proceeds from termination of interest rate swaps	**–**	7.6	–	–	–	–	15.9	3.4	–
Purchase price adjustment	**–**	–	–	4.3	–	26.6	–	–	–
Decrease (increase) in other assets	**4.1**	(1.0)	(4.4)	(0.4)	(1.3)	(0.9)	1.1	(4.4)	1.6
Cash flows provided (used) by investing activities	**(2.9)**	(205.3)	(83.7)	(85.8)	(93.0)	(41.8)	(96.1)	(42.5)	(60.7)

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years ended December 31, (In millions of Canadian dollars)	2009	2008	2007	2006	2005	2004	2003	2002	2001
Financing									
Issue of shares, net of share issue costs	–	121.1	0.3	–	–	–	(0.1)	208.1	–
Increase (decrease) in revolving loan and loan payable	**(45.6)**	60.1	47.0	(5.5)	6.4	(12.5)	(105.7)	119.1	–
Repayment of revolving operating loan	–	(47.1)	–	–	–	–	–	–	–
Repayment of long-term debt	**(75.7)**	–	–	–	–	(266.1)	–	(386.7)	(240.9)
Proceeds from long-term debt	**95.0**	–	–	–	–	333.1	212.7	–	768.7
Proceeds on termination of debt foreign currency contracts	**34.7**	–	–	–	–	–	–	–	–
Settlement on purchase of debt securities	**(26.9)**	–	–	–	–	–	–	–	–
Deferred financing costs	**(0.9)**	(5.5)	–	–	0.1	(6.2)	(5.6)	–	(30.7)
Premium and expenses on repayment of long-term debt	–	–	–	–	–	(15.0)	–	–	–
Increase (decrease) in other long-term debt	**(1.0)**	3.6	3.6	(0.4)	(0.2)	(0.3)	(0.3)	6.1	–
Special distribution	–	–	–	–	–	–	–	–	(1,490.3)
Dividends paid	–	–	–	–	–	–	–	–	(37.2)
Increase (decrease) in other long-term obligations	–	–	–	–	–	–	(15.7)	3.4	–
Cash flows provided (used) by financing activities	**(20.4)**	132.2	50.9	(5.9)	6.3	33.0	85.3	(50.0)	(1,030.4)
Cash and cash equivalents, increase (decrease) in the year	**78.1**	5.0	(35.5)	35.5	(26.0)	26.0	–	(104.8)	(824.9)
Cash and cash equivalents, beginning of year	**5.0**	–	35.5	–	26.0	–	–	104.8	929.7
Cash and cash equivalents, end of year	**$ 83.1**	$ 5.0	$ –	$ 35.5	$ –	$ 26.0	$ –	$ –	$ 104.8

OTHER FINANCIAL AND OPERATIONAL INFORMATION

Years ended December 31,

(In millions of Canadian dollars, except where otherwise stated)	2009	2008	2007	2006	2005	2004	2003	2002	2001
Selected financial information									
EBITDA [1, 10]	**$ 103.5**	$ 159.4	$ 27.0	$ 199.1	$ 122.5	$ 126.1	$ 149.4	$ 81.2	$ 176.8
EBITDA margin [2]	**8.6%**	8.6%	1.6%	10.6%	6.8%	6.8%	7.9%	4.7%	11.6%
Weighted average common shares outstanding (in millions)	**381.8**	336.1	214.7	214.6	214.6	214.6	206.6	193.4	141.1
Basic and diluted earnings (loss) per share (in dollars)	**$ (0.01)**	$ (0.65)	$ (0.17)	$ (0.13)	$ (0.23)	$ (0.24)	$ (0.21)	$ (0.44)	$ 0.11
Working capital [3]	**$ 214.8**	$ 201.5	$ 217.5	$ 273.0	$ 248.8	$ 298.4	$ 291.8	$ 219.3	$ 354.2
Current assets to current liabilities [3]	**2.23**	1.36	1.80	1.92	1.89	2.04	2.09	1.70	2.00
Total debt to total capitalization [4, 5]	**49%**	54%	47%	48%	47%	44%	44%	44%	54%
Net debt to net capitalization [6, 7]	**46%**	54%	47%	47%	47%	44%	44%	44%	52%
Common shares outstanding at end of year (in millions)	**381.8**	381.8	214.7	214.6	214.6	214.6	214.6	205.9	174.8
Book value per share (in dollars)	**$ 2.08**	$ 2.11	$ 4.14	$ 4.19	$ 4.52	$ 4.86	$ 5.11	$ 5.41	$ 5.75
Average spot rate (US$/CDN$) [8]	**0.876**	0.938	0.930	0.882	0.825	0.768	0.714	0.637	0.646
Share prices									
High	**$ 0.44**	$ 1.78	$ 4.31	$ 3.60	$ 4.26	$ 4.95	$ 6.06	$ 7.70	$ 11.89
Low	**0.08**	0.24	1.19	2.40	2.40	3.30	2.93	4.65	5.30
Close	**0.20**	0.30	1.57	3.55	3.07	3.77	4.17	5.45	6.80
Benchmark prices [9]									
SC-A paper, 35 lb. (US$ per ton)	**$ 798**	$ 866	$ 753	$ 788	$ 769	$ 713	$ 675	$ 669	$ 807
LWC paper, No. 5, 40 lb. (US$ per ton)	**808**	960	786	836	847	726	688	678	803
Telephone directory paper, 22.1 lb. (US$ per ton)	**758**	750	740	721	675	650	654	695	730
Newsprint 48.8 gsm, average West Coast delivery (US$ per tonne)	**546**	687	579	649	600	544	493	456	578
NBSK pulp, Northern Europe delivery (US$ per tonne)	**667**	840	800	681	611	618	525	458	531
White-top linerboard, 42 lb., Eastern U.S. delivery (US$ per ton)	**N/A**	750	697	673	608	591	547	570	594
Sales (000 tonnes)									
Specialty printing papers	**897**	1,081	1,055	990	943	994	967	848	472
Newsprint	**488**	602	496	699	707	755	769	750	604
Pulp	**110**	507	603	626	603	528	539	493	669

1 EBITDA is a non-GAAP measure. Refer to the "Non-GAAP Measures" section in Management's Discussion and Analysis.

2 EBITDA margin is defined as EBITDA as a percentage of sales.

3 Working capital and current assets to current liabilities, for these purposes, exclude current portion of long-term debt.

4 Total debt comprises long-term debt, including current portion.

5 Total capitalization comprises total debt and shareholders' equity.

6 Net debt comprises total debt less cash on hand.

7 Net capitalization comprises net debt and shareholders' equity.

8 Average spot rate is the average Bank of Canada noon spot rate over the reporting period.

9 Benchmark selling prices are sourced from RISI.

10 For EBITDA before specific items, refer to the "Non-GAAP Measures" section in Management's Discussion and Analysis.

CORPORATE INFORMATION

CORPORATE OFFICE

Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, BC V7B 1C3
Tel: 604-247-4400
www.catalystpaper.com

Nanaimo Office
201 65 Front Street
Nanaimo, BC V9R 5H9
Tel: 250-734-8000

OPERATIONS

Crofton Mill
PO Box 70
Crofton, BC V0R 1R0
Tel: 250-246-6100

Elk Falls Mill
PO Box 2000
Campbell River, BC V9W 5C9
Tel: 250-287-5200

Port Alberni Mill
4000 Stamp Avenue
Port Alberni, BC V9Y 5J7
Tel: 250-723-2161

Powell River Mill
5775 Ash Avenue
Powell River, BC V8A 4R3
Tel: 604-483-3722

Paper Recycling
1050 United Boulevard
Coquitlam, BC V3K 6V4
Tel: 604-525-5734

Snowflake Mill
277 Spur North
PO Box 128
Snowflake, AZ 85937 USA
Tel: 928-536-4314

Surrey Distribution Centre
10555 Timberland Road
Surrey, BC V3V 3T3
Tel: 604-953-0373

INVESTOR INFORMATION

Annual Meeting
The annual meeting of shareholders will be held on Wednesday, April 28, 2010 at 2 p.m. at the Delta Vancouver Airport Hotel in Richmond, British Columbia.

Transfer Agent and Registrar

CIBC Mellon Trust Company
at its principal offices in Vancouver and Toronto.

Auditors

KPMG LLP
Vancouver, BC

Share Information
Common Shares
(symbol: CTL)
The Toronto Stock Exchange

Investor Relations Contacts

Brian Baarda
Vice-President, Finance and Chief Financial Officer
Tel: 604-247-4710

Lyn Brown
Vice-President, Corporate Relations and Social Responsibility
Tel: 604-247-4713

Annual and Quarterly Reports
For copies of annual and quarterly reports contact:
Tel: 604-247-4011
Fax: 604-247-0546

SALES AND MARKETING CONTACTS

Catalyst Paper Corporation
2nd Floor
3600 Lysander Lane
Richmond, BC V7B 1C3

Jim Bayles
Vice-President and General Manager
Newsprint, International Sales
Tel: 604-247-4766
Fax: 604-247-0526

Peter Hart
Vice-President and General Manager
Pulp Sales
Tel: 604-247-4787
Fax: 604-247-0526

Catalyst Paper (USA) Inc.
2101 4th Avenue, Suite 1950
Seattle, WA 98121 USA
Tel: 206-838-2070

Tom Crowley
Senior Vice-President,
Sales and Marketing
Tel: 206-838-2014
Fax: 206-838-2071

Matthew Stapleton
Vice-President and General Manager
Specialty Papers
Tel: 206-838-2005
Fax: 206-838-2071

Paul Gordon
Vice-President and General Manager
Directory Papers
Tel: 817-488-9258
Fax: 817-488-9258

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Corporate Director

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Vancouver, BC
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Catalyst Paper Corporation

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Vancouver, BC
President, Senior Partner Services Ltd.

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Vancouver, BC
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New York, NY
Portfolio Manager and Senior Research
Analyst, Third Avenue Management, LLC

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Steve Boniferro
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Lyn Brown
Vice-President, Corporate Relations
and Social Responsibility

Tom Crowley
Senior Vice-President,
Sales and Marketing

Brian Johnston
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Vice-President, Supply Chain
and Information Technology

Valerie Seager
Vice-President and General Counsel

Peter M. Staiger
Vice-President and Treasurer

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Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, B.C. V7B 1C3
604-247-4400
www.catalystpaper.com

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inside pages (269 g)

Inputs	
Raw Fibre (g)	260
% certified sources	100
Filler (g)	51
Water (L)	21.0
Work (person-secs)	2.6
Energy (cal)	1,490
% renewable	88
Emissions	
Greenhouse gases (g)	34*
Air Particulate (mg)	9.4
Effluent BOD (mg)	62
Solid waste (cm^3)	19

* Catalyst Cooled™ – offset to zero

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