This is the 3rd affidavit
of Deborah Hamann-Trou in this case
and was made on June 17, 2012

No. S-120712
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,* R.S.C. 1985, c. C-36, AS AMENDED

AND

IN THE MATTER OF THE *CANADA BUSINESS CORPORATIONS ACT*, R.S.C. 1985, c. C-44

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, S.B.C. 2002, c. 57

AND

IN THE MATTER OF CATALYST PAPER CORPORATION AND THE PETITIONERS LISTED IN SCHEDULE "A"

PETITIONERS

AFFIDAVIT

I, **DEBORAH HAMANN-TROU**, legal assistant, of 20th Floor, 250 Howe Street, Vancouver, B.C., V6C 3R8, SWEAR THAT:

1. I am a legal assistant with the law firm of Fraser Milner Casgrain LLP, solicitors for the Ad Hoc 2016 Noteholder Group, and as such, I have personal knowledge of the matters herein deposed to, except where stated to be based on information and belief, in which case I do verily believe the same to be true.

2. Now produced and shown to me and attached as **Exhibit "A"** to my Affidavit is a copy of the Notes to Consolidated Financial Statements dated February 11, 2009.

3. Now produced and shown to me and attached as **Exhibit "B"** to my Affidavit is a copy of the Notes to Consolidated Financial Statements dated March 1, 2010.

4. Now produced and shown to me and attached as **Exhibit "C"** to my Affidavit is a copy of the Notes to Consolidated Financial Statements dated March 2, 2011.

5. Now produced and shown to me and attached as **Exhibit "D"** to my Affidavit is a copy of correspondence exchange between Catalyst and FICOM.

6. Now produced and shown to me and attached as **Exhibit "E"** to my Affidavit is a copy of the Salaried Plan Financial Statements for the years ended December 31, 2009 and 2008.

7. Now produced and shown to me and attached as **Exhibit "F"** to my Affidavit is a copy of the Salaried Plan Financial Statements for the years ended December 31, 2010 and 2009.

8. Now produced and shown to me and attached as **Exhibit "G"** to my Affidavit is a copy of the Actuarial Valuation for the Salaried Plan as at December 31, 2011 (dated March 30, 2012).

9. Now produced and shown to me and attached as **Exhibit "H"** to my Affidavit is a copy of the 2010-2011 Report to Members.

10. Now produced and shown to me and attached as **Exhibit "I"** to my Affidavit is a copy of the Press Release dated Monday, June 11, 2012 entitled: "Catalyst Paper seeks support from secured noteholders for amendment to plan of arrangement."

11. Exhibits "A" through to "H" were disclosed pursuant to the Order of June 13, 2012 of Mr. Justice Sewell.

SWORN (OR AFFIRMED) BEFORE ME at Vancouver, British Columbia, on June 17, 2012.

A Commissioner for taking Affidavits within British Columbia

James A. Schmidt,
Barrister and Solicitor

DEBORAH HAMANN-TROU

This is Exhibit "A" referred to in the affidavit of Deborah Hamann-Trou sworn before me at Vancouver this 17th day of June, 2012.

A Commissioner for taking Affidavits
for British Columbia

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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 generally accepted accounting principles ("GAAP") in Canada, except note 30 which sets out the significant measurement differences had these statements been prepared in accordance with U.S. GAAP, and reflect management's best judgments and estimates. Financial information provided elsewhere in this 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, 2008. 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, 2008, 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 four 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

Richard Garneau
President and Chief Executive Officer

D. Smales

David Smales
Vice-President, Finance and Chief Financial Officer

Vancouver, Canada
February 11, 2009

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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, 2008 and 2007 and the consolidated statements of earnings and comprehensive income (loss), shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. 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 auditing 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, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Vancouver, Canada

February 11, 2009

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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 ("the Company")'s internal control over financial reporting as of December 31, 2008, 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 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, 2008, 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 February 11, 2009, expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants
Vancouver, Canada

February 11, 2009

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Consolidated Statements of Earnings and Comprehensive Income (Loss)

Years ended December 31, (In millions of dollars, except where otherwise stated)	2008	2007	2006
Sales	$ 1,849.4	$ 1,714.6	$ 1,882.5
Operating expenses			
Cost of sales	1,613.0	1,574.6	1,609.3
Selling, general and administrative	46.9	48.3	62.2
Restructuring and change-of-control (note 7)	30.1	64.7	–
Amortization	165.8	176.4	183.7
Impairment (note 4)	151.0	–	23.4
	2,006.8	1,864.0	1,878.6
Operating earnings (loss)	(157.4)	(149.4)	3.9
Interest expense, net (note 8)	(75.0)	(70.7)	(73.8)
Foreign exchange gain (loss) on long-term debt	(82.2)	103.9	(0.3)
Other income (expense), net (note 9)	2.5	(15.3)	1.8
Earnings (loss) before income taxes and non-controlling interest	(312.1)	(131.5)	(68.4)
Income tax recovery (note 10)	(91.8)	(100.0)	(54.0)
Net earnings (loss) before non-controlling interest	(220.3)	(31.5)	(14.4)
Non-controlling interest (note 5)	(0.8)	(0.1)	(1.5)
Net earnings (loss)	$ (221.1)	$ (31.6)	$ (15.9)
Other comprehensive income (loss)	(18.5)	14.3	–
Comprehensive income (loss)	$ (239.6)	$ (17.3)	$ (15.9)
Basic and diluted earnings (loss) per share (note 11) (in dollars)	$ (0.66)	$ (0.15)	$ (0.07)
Weighted average common shares outstanding (in millions)	336.1	214.7	214.6

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

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Consolidated Balance Sheets

As at December 31, (In millions of dollars)	2008	2007
Assets		
Current assets		
Cash and cash equivalents	$ 5.0	$ –
Accounts receivable (note 12)	221.7	213.1
Inventories (note 13)	211.4	235.7
Prepaids and other (note 14)	32.8	40.7
	470.9	489.5
Property, plant and equipment (note 15)	1,852.0	1,912.8
Other assets (note 16)	100.5	54.8
	$ 2,423.4	$ 2,457.1
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 17)	$ 269.4	$ 268.2
Current portion of long-term debt	75.8	1.2
	345.2	269.4
Long-term debt (note 18)	882.9	784.6
Employee future benefits (note 19)	226.6	211.7
Other long-term obligations (note 20)	13.3	26.9
Future income taxes (note 10)	66.8	154.2
Deferred credits (note 21)	18.6	21.7
	1,553.4	1,468.5
Shareholders' equity		
Share capital (note 22)	1,035.0	913.9
Contributed surplus	14.6	12.1
Retained earnings (deficit)	(174.7)	49.0
Accumulated other comprehensive income (loss)	(4.9)	13.6
	870.0	988.6
	$ 2,423.4	$ 2,457.1

Commitments, Guarantees and Indemnities and Contingent Liabilities (notes 26, 27, and 28)

Subsequent event (note 4)

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

On behalf of the Board:

Richard Garneau

Richard Garneau
Director

Thomas S. Chambers
Director

Consolidated Statements of Shareholders' Equity

Years ended December 31, (In millions of dollars, except where otherwise stated)	2008	2007	2006
Share capital (note 22)			
Number of shares outstanding, beginning of year	214,684,129	214,604,120	214,604,120
Number of shares issued under rights offering (note 6)	167,069,361	–	–
Number of shares issued under stock option plan	–	80,009	–
Number of shares outstanding, end of year	381,753,490	214,684,129	214,604,120
Balance, beginning of year	$ 913.9	$ 913.6	$ 913.6
Issue of common shares on rights offering, net of share issue costs (note 6)	121.1	–	–
Stock options exercised	–	0.3	–
Balance, end of year	1,035.0	913.9	913.6
Contributed surplus			
Balance, beginning of year	12.1	9.3	7.3
Stock option compensation expense	2.5	3.2	2.0
Stock options exercised	–	(0.4)	–
Balance, end of year	14.6	12.1	9.3
Retained earnings (deficit)			
Balance, beginning of year	49.0	82.9	98.8
Adoption of new accounting standards (note 2(c))	(2.6)	(2.3)	–
Net earnings (loss)	(221.1)	(31.6)	(15.9)
Balance, end of year	(174.7)	49.0	82.9
Accumulated other comprehensive income (loss)			
Balance, beginning of year	13.6	–	–
Adoption of new accounting standards for financial instruments	–	(0.7)	–
Change in foreign currency translation of self-sustaining foreign subsidiaries, net of related hedging activities	6.7	–	–
Unrealized net gain (loss) on cash flow revenue hedges, net of tax of $11.1 million (2007 – $13.8 million)	(25.0)	28.4	–
Reclassification of net gain (loss) on cash flow revenue hedges to net earnings (loss), net of tax of $0.1 million (2007 – $7.3 million)	(0.2)	(14.1)	–
Balance, end of year	(4.9)	13.6	–
Total shareholders' equity	$ 870.0	$ 988.6	$ 1,005.8

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

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Consolidated Statements of Cash Flows

Years ended December 31, (In millions of dollars)	2008	2007	2006
Cash flows provided (used) by:			
Operations			
Net earnings (loss)	$ (221.1)	$ (31.6)	$ (15.9)
Items not requiring (providing) cash			
Amortization	165.8	176.4	183.7
Impairment (note 4)	151.0	–	23.4
Future income taxes (note 10)	(93.5)	(100.7)	(56.1)
Foreign exchange loss (gain) on long-term debt	82.2	(103.9)	0.3
Employee future benefits, excess of expense over funding	2.9	6.7	6.4
Increase (decrease) in other long-term obligations	(5.1)	7.5	0.9
Loss (gain) on disposal of property, plant and equipment (note 9)	(0.4)	13.6	(1.1)
Non-controlling interest	0.8	0.1	1.5
Lower of cost or market write-down of inventories (note 13)	5.9	1.8	(2.0)
Other	22.3	(20.9)	(6.3)
	110.8	(51.0)	134.8
Changes in non-cash working capital			
Accounts receivable	(7.4)	64.2	(35.5)
Inventories	21.5	7.4	2.7
Prepaids and other	3.6	(5.0)	(0.9)
Accounts payable and accrued liabilities	(52.8)	(18.3)	26.1
	(35.1)	48.3	(7.6)
Cash flows provided (used) by operations	75.7	(2.7)	127.2
Investing			
Acquisition of Snowflake newsprint mill (note 6)	(169.8)	–	–
Additions to property, plant and equipment	(41.9)	(85.8)	(93.2)
Proceeds from sale of property, plant and equipment	2.2	6.5	3.5
Proceeds from termination of interest rate swaps (note 24 (e))	7.6	–	–
Purchase price adjustment (note 25)	–	–	4.3
Increase in other assets	(1.0)	(4.4)	(0.4)
Cash flows used by investing activities	(202.9)	(83.7)	(85.8)
Financing			
Issue of shares, net of share issue costs (note 6)	121.1	–	–
Increase (decrease) in revolving loan and loan payable	60.1	47.0	(5.5)
Repayment of revolving operating loan	(47.1)	–	–
Deferred financing costs	(5.5)	–	–
Increase (decrease) in other long-term debt	3.6	3.6	(0.4)
Issue of shares from exercise of stock options	–	0.3	–
Cash flows provided (used) by financing activities	132.2	50.9	(5.9)
Cash and cash equivalents, increase (decrease) in the year	5.0	(35.5)	35.5
Cash and cash equivalents, beginning of year	–	35.5	–
Cash and cash equivalents, end of year	$ 5.0	$ –	$ 35.5
Supplemental disclosures:			
Income taxes paid	$ 0.8	$ 0.5	$ 2.7
Net interest paid	74.4	67.8	71.5

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

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Consolidated Business Segments

Year ended December 31, 2008 (In millions of 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 7)	10.6	4.1	15.4	–	30.1
Amortization	100.6	37.3	27.9	–	165.8
Impairment (note 4)	11.9	2.4	136.7	–	151.0
Operating earnings (loss)	27.0	3.6	(188.0)	–	(157.4)
Total assets	1,387.7	697.8	280.7	57.2	2,423.4
Additions to property, plant and equipment	24.2	15.1	2.6	–	41.9

Year ended December 31, 2007 (In millions of 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 and change-of-control (note 7)	42.2	12.9	9.6	–	64.7
Amortization	101.3	33.2	41.9	–	176.4
Operating earnings (loss)	(75.1)	(56.9)	(17.4)	–	(149.4)
Total assets	1,435.0	518.6	483.2	20.3	2,457.1
Additions to property, plant and equipment	42.8	32.4	10.6	–	85.8

Year ended December 31, 2006 (In millions of dollars)	Specialty printing papers	Newsprint	Pulp	Corporate adjustments	Consolidated
Sales to external customers	$ 918.4	$ 529.8	$ 434.3	$ –	$ 1,882.5
Inter-segment sales	–	–	47.2	(47.2)	–
Amortization	94.6	45.8	43.3	–	183.7
Impairment (note 4)	0.5	19.1	3.8	–	23.4
Operating earnings (loss)	9.7	6.9	(12.7)	–	3.9
Total assets	1,355.3	737.8	529.5	18.7	2,641.3
Additions to property, plant and equipment	48.4	34.4	10.4	–	93.2

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

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Consolidated Geographic Business Segments

2008 (In millions of 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

2007 (In millions of 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

2006 (In millions of dollars)	Specialty printing papers	Newsprint	Pulp	Total
Sales by shipment destination:				
Canada	$ 104.0	$ 88.7	$ 13.9	$ 206.6
United States	759.3	256.7	37.8	1,053.8
Asia and Australasia	15.6	106.0	201.0	322.6
Latin America	38.5	78.0	55.4	171.9
Europe and other	1.0	0.4	126.2	127.6
	$ 918.4	$ 529.8	$ 434.3	$ 1,882.5

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

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Notes to Consolidated Financial Statements

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Notes to Consolidated Financial Statements

Amounts expressed in millions of 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, 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.

Effective January 1, 2008, the Company renamed its specialty paper segment "Specialty Printing Papers" to better reflect the nature of the Company's specialty paper products. The name change had no impact on the segment financial information.

2. Summary of significant accounting policies

The consolidated financial statements of the Company are expressed in millions of Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These financial statements differ in certain respects from those prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). The significant measurement differences are described in note 30, "Reconciliation of Canadian and United States generally accepted accounting principles".

(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) Changes in accounting policies

On January 1, 2008, the Company adopted the following new recommendations of the Canadian Institute of Chartered Accountants ("CICA"):

Handbook Section 3031, "Inventories", provides more guidance on the measurement and disclosure requirements for inventories. Significantly to the Company, the new recommendations require raw materials to be recorded at the lower of cost or net realizable value ("NRV") with NRV determined on an as converted to finished goods basis for all raw materials to be used in the production of finished goods, allow the reversals of previous write-downs to NRV when there is a subsequent increase in the value of inventories and include more detailed guidance on the classification of spare parts between inventories and capitalized equipment. The Company adopted this standard with a prospective application.

Upon adoption of this standard, the Company recorded a write-down of $3.8 million to opening raw materials inventory and adjusted its opening balances of retained earnings by $2.6 million, net of taxes. In addition, the Company reclassified $5.7 million of its maintenance spare parts inventory from "Inventories" to "Property, plant and equipment" on the balance sheet.

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Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

Handbook Section 1535, "Capital Disclosures" establishes guidelines for the disclosure of information related to an entity's objectives, policies and processes for managing capital, quantitative data on what the entity regards as capital and whether the entity has complied with any capital requirement and, if it has not complied, the consequences of such non-compliance (note 3).

Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" enhance existing disclosures in previously issued Section 3861, "Financial Instruments – Disclosures and Presentation". The new recommendations under Section 3862, "Financial Instruments – Disclosures" require additional disclosures, relative to those previously required, with an emphasis on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the period and at the balance sheet date, and how the entity manages those risks (note 24(a)).

During 2008, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation". The revision to this section provides additional guidance related to management's assessment of the Company's ability to continue as a going concern. This revision is effective for fiscal years beginning on or after January 1, 2008. The standard did not have a material impact on the Company's consolidated financial statements.

On January 1, 2007, the Company adopted the new recommendations of CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", Section 1530, "Comprehensive Income", Section 3865, "Hedges", Section 3861, "Financial Instruments – Disclosure and Presentation", and Section 3251, "Equity". These new standards, which applied to fiscal years beginning on or after October 1, 2006, introduced new requirements for recognition, measurement and disclosure of financial instruments, when and how hedge accounting may be applied, established the concept of comprehensive income and rules for reporting it, and established rules for the presentation of equity and changes in equity. Prior period financial statements were not revised for the adoption of these new standards. The adoption of these standards resulted in the Company recording on its balance sheet, at fair value, certain revenue and interest rate derivative financial instruments that were previously off balance sheet and the reclassification of its deferred financing costs against long-term debt. This resulted in the adjustment of $2.3 million, net of taxes, to the opening balances of retained earnings on January 1, 2007.

For the year ended December 31, 2008, the Company early adopted the new recommendations of the CICA Emerging Issues Committee as described in Abstract 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This Abstract clarifies that the Company must consider its own credit risk and the credit risk of a counterparty in the determination of the fair value of derivative instruments. The Company adopted this standard effective January 1, 2008 and it had no material effect on opening balances.

(d) Use of estimates

The consolidated financial statements have been prepared in conformity with Canadian 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, pension and post-retirement benefits, bad debt and doubtful accounts and income taxes, based on currently available information. Actual amounts could differ from estimates.

(e) Revenue recognition

The Company recognizes revenues upon shipment when the significant risks and rewards of ownership are transferred to the customer and collection is reasonably assured. Title to products is typically transferred to the customers at the time of shipment, and payment is based on agreed prices and credit terms contained in sales invoices. Customers have no contractual right of return.

(f) 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-sustaining. Accordingly, 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, as discussed in note 6.

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Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

(g) 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. Prior to January 1, 2007, the Company used hedge accounting to account for the derivative financial instruments designated as hedging instruments, and the fair value method to account for derivative financial instruments not designated as hedging instruments.

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.

Realized and unrealized gains or losses associated with hedging instruments are recognized in earnings in the same period the hedge item is recognized. Realized and unrealized gains or losses when hedging instruments have ended or ceased to be effective prior to their maturity are deferred and recognized in earnings concurrently with the recognition of the item being hedged.

Foreign exchange exposure to foreign currency revenue and related receivables, primarily in U.S. currency, is managed through the use of foreign exchange forward contracts and options to sell foreign currencies. Realized foreign exchange translation gains and losses from transactions formally designated as hedges are recognized concurrently with the hedged revenue in "Sales". The effective portion of 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 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".

Price risk associated with the sale of products, primarily NBSK pulp, is managed from time to time through the use of commodity swap agreements. These contracts are not designated as hedging instruments for accounting purposes, and are reported at fair value in "Prepaids and other" or "Accounts payable and accrued liabilities" on the consolidated balance sheet. Changes in fair value are recognized in "Sales".

Price risk associated with the purchase of certain inputs, primarily oil and gas, is managed from time to time through the use of commodity swaps. These instruments are not designated as hedges for accounting purposes and are reported at their fair value in "Prepaids and other" or "Accounts payable and accrued liabilities" on the consolidated balance sheet. Changes in fair value are recognized in "Cost of sales".

Foreign currency exposure on long-term debt denominated in U.S. currency is managed through the use of forward contracts and options to purchase U.S. dollars. The Company has designated a portion of its foreign currency denominated long-term debt as an effective hedge of its self-sustaining subsidiary. Gains and losses on translation of such debt into Canadian dollars are deferred in a separate component of shareholders' equity to be recognized in net earnings when there is a reduction in the net investment in the subsidiary. The fair values of these instruments are reported under "Other assets" or "Other long-term obligations" on the consolidated balance sheet at their fair value. Changes in fair value on instruments that are not designated as hedges are recognized in "Foreign exchange gain (loss) on long-term debt", offsetting the respective translation gains and losses on the underlying foreign currency long-term debt.

Exposure to interest rates on long-term debt is managed through the use of interest swaps. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. These instruments are designated as fair value hedging instruments. The effective portion of changes in the fair value of the derivatives are netted in "long-term debt" and the ineffective portion is recognized in "Interest expense, net".

Cash flows from derivative financial instruments that are designated as hedges and 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.

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(h) 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.

(i) Inventories

Specialty printing papers, newsprint and pulp inventories are valued at the lower of average cost or net realizable value. Wood chips, pulp logs and other raw materials are valued at the lower of cost or net realizable value. For all raw materials to be used in the production of finished goods, net realizable value is determined on an as converted to finished goods basis (note 2(c)). Work-in-progress and operating and maintenance supplies and spare parts inventories are valued at cost.

(j) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated amortization, including asset impairment charges. Interest costs are capitalized for capital projects in excess of $10 million and having a minimum duration of six months. 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 amortization is charged on manufacturing machinery and equipment.

No amortization is charged on capital projects during the period of construction. Start-up costs incurred in achieving normal operating capacity on major capital projects are deferred and amortized over a five-year period.

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 amortization is netted against the sale proceeds and the difference is included in "Other income (expense), net".

(k) 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.

(l) 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 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.

(m) 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.

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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.

(n) Research and development

Research and development costs are expensed except in cases where development costs meet certain identifiable criteria for deferral. Deferred development costs are amortized over the life of the commercial production.

(o) Deferred financing costs

Deferred financing costs represent the issuance costs of the Company's long-term debt. Deferred costs related to the Company's senior notes are netted against the carrying value of long-term debt on the consolidated balance sheet and amortized using the effective interest rate method over the expected life of the related liability. Deferred costs related to the Company's revolving asset based facility are included in "Other assets".

(p) Share issue costs

Direct costs of issuing shares, net of income tax recoveries thereon, are applied to reduce the value of consideration assigned to such shares.

(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 "Share capital" together with any related stock-based compensation expense. Performance and time based share-based payments are amortized over their vesting periods based on management's best estimate.

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 or substantively 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 substantive enactment occurs.

(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 during the period that the acquired tax asset is utilized.

(t) Employee future benefits

Pensions and other employee future 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. These plans include funded and unfunded defined benefit plans and defined contribution plans. 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;

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- the straight-line amortization of past service costs and plan amendments 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 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.

(u) Earnings per share
Basic earnings (loss) per share is computed by dividing net earnings (loss) for the period by the weighted average 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
Certain comparative figures disclosed in the consolidated financial statements have been reclassified to conform with the presentation adopted for the current year.

3. Capital structure management

The Company's objectives when managing capital are to efficiently provide for the funding of ongoing operations, interest payments and capital expenditures, while ensuring adequate liquidity and solvency. The Company aims to minimize its cost of capital while achieving a selected capital structure and credit rating, providing a platform to effectively fund new growth initiatives, and ensuring flexibility in raising capital from multiple sources and markets.

The Company's capital structure consists of net debt, shareholders' equity and cash availability through a revolving asset based loan facility. The Company makes adjustments to the capital structure depending on economic conditions and the financial position and performance of the Company. In order to maintain or adjust the capital structure, the Company may issue new shares, buy back shares or pay dividends (provided the Company is compliant with its debt covenants), issue new debt, refinance or buy back existing debt, and sell assets to reduce debt.

The Company monitors its capital structure in a number of ways with its target requirements being as follows: (i) net debt to net capitalization of 35-45%, (ii) ratio of net debt to trailing twelve months EBITDA (defined as earnings before interest, taxes, depreciation and amortization, and before specific items) of less than 5.0:1 through a business cycle, (iii) interest coverage (defined as trailing twelve months EBITDA divided by interest) of greater than 2.5:1. These targets for net debt to EBITDA and interest coverage ratios are those that the Company believes are necessary to achieve a minimum BB/Ba2 corporate credit rating. The Company also targets re-investment hurdles on capital expenditures of one to three year payback depending on liquidity and outlook. Net debt comprises total debt less cash on hand. Net capitalization comprises net debt and shareholders' equity. EBITDA is a non-GAAP measure whose nearest GAAP measure is net income.

At December 31, 2008, the Company's net debt to net capitalization was 52.3% (December 31, 2007 – 44.2%), net debt to trailing twelve months EBITDA was 5.0:1 (December 31, 2007 – 6.7:1) and interest coverage was 2.5:1 (December 31, 2007 – 1.6:1). The acquisition of the Snowflake mill on April 10, 2008 (note 6), was funded through a combination of an equity rights offering of $121.1 million, net of share issue costs, and a draw on the Company's revolving operating facility. The Company is currently meeting its capital structure targets with respect to net debt to EBITDA and interest coverage. However, the target for net debt to net capitalization is not being met as at December 31, 2008.

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4. 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:

(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 76% of total assets as at December 31, 2008. 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.

In the fourth quarter of 2008, as a result of a slowdown in the global economy resulting in a 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, estimated useful life of the long-lived assets, production levels, production costs, market supply and demand, 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 2009 of CDN$1.00 = US$0.90 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 2010 to 2013 were based on forecasts prepared by Resource Information Systems Inc. ("RISI"), an independent external firm. The foreign exchange assumption was CDN$1.00 = US$0.85 in 2010 declining to CDN$1.00 = US$0.78 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. In addition to the impairment test conducted using RISI and long-term trend assumptions for the years 2010 and beyond, the Company also prepared a second analysis applying significant discounts to the RISI and trend assumptions. In this second analysis, the foreign exchange assumption was CDN$1.00 = US$0.90 for all years and average product pricing was reduced by 7% to 18% in the years 2010 to 2012 when compared to RISI pricing assumptions. In addition, volume assumptions were reduced in each year. In this second analysis, the 5-year average results for 2008 to 2012 were then applied to each subsequent year of the useful life of the assets. The Company concluded that an impairment charge for the pulp and paper assets, other than the exceptions noted below, was not required as at December 31, 2008 as the estimated undiscounted cash flows in both cases exceeded the carrying values.

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.

The Company's No. 1 paper machine in Elk Falls ("E1") was curtailed throughout 2008. The Company has not recorded an impairment for the indefinite curtailment. The Company is monitoring market and other conditions and will assess whether they improve sufficiently to allow this machine to be placed back into production. To the extent that conditions do not improve in a reasonable period of time and to the levels necessary to restart the machine, a write-down may result in the future. As at December 31, 2008, the net book value of E1 and ancillary assets was approximately $25 million.

On January 20, 2009, the Company announced the indefinite curtailment of its No. 1 paper machine in Crofton ("C1") effective February 1, 2009 until market conditions improve. As at December 31, 2008, the Company has not recorded an impairment for the indefinite curtailment. The net book value of C1 and ancillary assets was approximately $12 million at December 31, 2008.

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In 2006, the Company recorded an impairment loss of $23.4 million, of which $19.1 million related to the permanent closure of its Port Alberni No. 3 paper machine and ancillary assets, and $4.3 million related to assets that were previously idled and where the Company determined the assets would not be used again in the future. The estimated fair value of these assets was based on the present value of the estimated asset proceeds net of dismantling and selling costs.

5. Variable interest entities

The Company has a 50.0% interest in Powell River Energy Inc. ("PREI"). The Company consolidates 100% of PREI in accordance with Accounting Guideline 15, "Consolidation of Variable Interest Entities". PREI consists of an integrated hydroelectric power generating, transmission and distribution system which includes two hydroelectric stations in British Columbia with installed capacity of 82 Megawatts. The Company purchases 100% of the power generated by PREI. Prior to January 1, 2005, PREI was accounted for using the proportionate consolidation method.

The Company has limited access to PREI's assets, which generally takes 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	2008	2007	2006
Condensed statement of earnings			
Sales – affiliate [1]	$ 18.6	$ 19.2	$ 19.6
Cost of sales	4.9	5.1	5.3
Amortization	3.2	3.3	2.9
	8.1	8.4	8.2
Operating earnings	10.5	10.8	11.4
Interest expense	(7.7)	(8.2)	(8.1)
Interest expense – affiliate [1]	(2.7)	(3.1)	(3.1)
Other expense, net	0.5	(4.2)	(0.3)
Income tax recovery	1.0	4.9	3.0
Net earnings [2]	$ 1.6	$ 0.2	$ 2.9

At at December 31	2008	2007
Condensed balance sheets		
Current assets	$ 3.5	$ 3.8
Property, plant and equipment	115.6	118.2
	$ 119.1	$ 122.0
Current liabilities		
Accounts payable and accrued liabilities	$ 15.3	$ 17.4
Current portion of long-term debt (note 18)	74.9	0.5
Long-term debt (note 18)	19.5	94.1
Long-term debt – affiliate [1]	21.5	21.5
Future income taxes	19.7	20.7
Shareholders' deficit [2]	(31.8)	(32.2)
	$ 119.1	$ 122.0

1 Balances with Catalyst Paper Corporation.

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

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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, 2008, the principal amount of the mortgage was $9.6 million (2007 – $10.6 million). This agreement does not increase the Company's liability beyond the obligation under the building lease.

6. 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 $169.8 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. 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. 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	169.7
Other assets	0.5
	188.3
Liabilities assumed	
Current liabilities	(18.1)
Employee future benefits	(0.4)
Fair value of net assets acquired	$ 169.8
Consideration paid	
Cash, including transaction costs	$ 169.8

The Company's Snowflake mill is financially and operationally self-sustaining. 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 accumulated other comprehensive income 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 dilution or sale of part or all of the Company's interest in the foreign subsidiary or as a result of capital transactions including dividend distributions and capital restructuring.

The Company has designated a portion of its foreign currency denominated long-term debt as an effective hedge of its self-sustaining foreign subsidiary. Upon translation of such debt into Canadian dollars, any gains or losses are also deferred in a separate component of shareholders' equity to be recognized in net earnings when there is a reduction in the net investment in the 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. Included in the accumulated other comprehensive income in shareholders' equity at December 31, 2008 was a net foreign exchange gain of $29.3 million, net of tax, related to the revaluation of the debt during the period of hedge effectiveness.

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7. Restructuring and change-of-control costs

The Company's restructuring and change-of-control expenses and related provisions at December 31 were as follows:

Years ended December 31,	2008	2007
Balance, beginning of year	$ 28.1	$ –
Expensed in year	30.1	64.7
Disbursements	(23.6)	(23.6)
Other non-cash items	–	(0.4)
	34.6	40.7
Less: portion related to employee future benefits	(18.3)	(12.6)
Balance, end of year	$ 16.3	$ 28.1
Classification:		
Accounts payable and accrued liabilities (note 17)	14.0	20.0
Other long-term obligations (note 20)	2.3	8.1
	$ 16.3	$ 28.1

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 a $12 million capital upgrade on 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. The capital upgrade is expected to be completed by May 2009. For the year ended December 31, 2008, the Company recorded $14.6 million in restructuring costs related to the early retirement and severance program. Restructuring expenses were recorded in accordance with the Emerging Issues Committee Abstract No. 134, "Accounting for Severance and Termination Benefits".

In April 2008, the Company announced the indefinite curtailment of Elk Falls paper machine No. 1 due to fibre shortages. The indefinite curtailment of E1, which was initially temporarily curtailed in September 2007 due to lack of fibre resulting from the strike by coastal loggers in British Columbia, resulted in a reduction of approximately 145 employees at Elk Falls, the majority through layoffs. 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. Costs associated with these restructuring programs are expected to be approximately $4 million. 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. Total severance costs associated with this closure are estimated to be approximately $21 million. 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.

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8. Interest expense, net

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

		2008		2007		2006
Interest on long-term debt	$	78.0	$	71.7	$	75.4
Fixed-to-floating interest rate swaps		(2.9)		–		(1.2)
Other		0.3		0.1		0.9
		75.4		71.8		75.1
Capitalized interest		(0.1)		(0.2)		–
Interest income		(0.3)		(0.9)		(1.3)
	$	75.0	$	70.7	$	73.8

9. Other income (expense), net

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

		2008		2007		2006
Termination fee on closure of corrugating machine at Snowflake	$	2.0	$	–	$	–
Gain (loss) on disposal of property, plant and equipment		0.4		(13.6)		1.1
Financing expenses		–		(1.2)		–
Other		0.1		(0.5)		0.7
	$	2.5	$	(15.3)	$	1.8

10. Income taxes

The components of income tax recovery for the years ended December 31 were as follows:

		2008		2007		2006
Current	$	1.7	$	0.7	$	2.1
Future		(86.6)		(78.3)		(33.2)
Release of future taxes related to reduction in corporate income tax rates		(6.9)		(22.4)		(22.9)
	$	(91.8)	$	(100.0)	$	(54.0)

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:

	2008		2007		2006	
Income tax recovery at Canadian statutory income tax rates	$ (96.8)	31.0%	$ (44.7)	34.0%	$ (23.3)	34.1%
Increase (decrease) in income taxes for:						
Non-taxable income and expenses	13.8	(4.4)	(14.9)	11.3	0.8	(1.2)
Difference in foreign tax rate	(4.3)	1.4	(1.7)	1.3	(1.8)	2.6
Release of future income taxes related to reduction in corporate income tax rates	(6.9)	2.2	(22.4)	17.0	(22.9)	33.5
Change in the future income tax estimate	–	–	(14.4)	11.0	(4.5)	6.6
Adjustment to deferred credits	(2.7)	0.8	(2.3)	1.7	1.0	(1.4)
Large corporations tax	–	–	–	–	(0.3)	0.4
Other	5.1	(1.6)	0.4	(0.3)	(3.0)	4.4
Income tax recovery	$ (91.8)	29.4%	$ (100.0)	76.0%	$ (54.0)	79.0%

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Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

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

	2008	2007
Future income tax assets		
Non-capital losses and temporary differences related to working capital	$ 21.7	$ 5.0
Employee future benefits	4.5	0.6
	26.2	5.6
Valuation allowance	–	(1.9)
	$ 26.2	$ 3.7
Classification:		
Prepaids and other (note 14)	$ 26.2	$ –
Other assets (note 16)	–	3.7
	$ 26.2	$ 3.7

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

	2008	2007
Future income tax liabilities		
Property, plant and equipment	$ 184.2	$ 229.2
Non-capital loss carry-forwards	(79.7)	(77.0)
Employee future benefits	(50.7)	(54.2)
Other	8.3	54.0
	62.1	152.0
Valuation allowance	4.7	2.2
	$ 66.8	$ 154.2

11. Earnings per share

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

	2008	2007	2006
Net earnings (loss) reported	$ (221.1)	$ (31.6)	$ (15.9)
Weighted average shares used in computation of basic earnings per share (in millions)	336.1	214.7	214.6
Weighted average shares from assumed conversion of dilutive options (in millions)	–	–	–
Weighted average shares used in computation of diluted earnings per share (in millions)	336.1	214.7	214.6
Basic and diluted earnings (loss) per share (in dollars)	$ (0.66)	$ (0.15)	$ (0.07)

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Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

12. Accounts receivable

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

	2008	2007
Trade receivables	$ 206.6	$ 197.0
Less: Allowance for doubtful accounts	(3.2)	(2.8)
	203.4	194.2
Sales taxes receivable	3.0	8.3
Other receivables	15.3	10.6
	$ 221.7	$ 213.1

13. Inventories

The components of inventories at December 31 were as follows:

	2008	2007
Finished goods		
Specialty printing papers	$ 25.6	$ 40.6
Newsprint	8.7	10.3
Pulp	18.8	24.3
Total finished goods	53.1	75.2
Work-in-progress	1.7	1.5
Raw materials – wood chips, pulp logs and other	46.1	41.0
Operating and maintenance supplies and spare parts	110.5	118.0
	$ 211.4	$ 235.7

At December 31, 2008, the Company had applied write-downs of $2.7 million (2007 – $2.6 million) to finished goods inventory and $9.6 million (2007 – $nil) to raw materials inventory (note 2(c)). At December 31, 2008, inventory carried at NRV consisted of $18.8 million of pulp and white top linerboard finished goods inventory, of which $17.9 million related to pulp and $0.9 million related to white top linerboard. At December 31, 2007, inventory carried at NRV consisted of $40.7 million of finished goods paper inventory, of which $30.4 million related to specialty printing papers and $10.3 million related to newsprint.

For the year ended December 31, 2008, the Company recorded an expense of $5.9 million (2007 – $1.8 million, 2006 – $2.0 million reversal) related to the write-down of inventories to NRV. This comprised of a $12.3 million charge (2007 – $nil, 2006 – $2.8 million reversal) related to pulp inventory, and a reversal of $2.9 million (2007 – $0.5 million charge, 2006 – $0.8 million charge) and $3.5 million (2007 – $1.3 million charge, 2006 – $nil) related to specialty printing papers and newsprint inventories, respectively. The reversal of inventory write-downs was a result of improved NRVs for specialty printing papers and newsprint in 2008 compared to December 31, 2007.

14. Prepaids and other

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

	2008	2007
Future income tax assets (note 10)	$ 26.2	$ –
Derivative financial instruments	1.3	32.0
Property taxes, insurance and licences	2.1	3.7
Other	3.2	5.0
	$ 32.8	$ 40.7

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Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

15. Property, plant and equipment

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

2008	Cost	Accumulated 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	2,708.0	1,369.1	1,338.9
Pulp	862.3	705.7	156.6
	$ 4,267.9	$ 2,415.9	$ 1,852.0

2007	Cost	Accumulated amortization	Net book value
Buildings and land			
Specialty printing papers and newsprint	$ 464.9	$ 163.8	$ 301.1
Pulp	124.4	68.1	56.3
Machinery and equipment			
Specialty printing papers and newsprint	2,561.0	1,295.0	1,266.0
Pulp	885.4	596.0	289.4
	$ 4,035.7	$ 2,122.9	$ 1,912.8

During 2008, the Company recorded $151.0 million 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 NRV 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.

During 2008, interest of $0.1 million (2007 – $0.2 million) was capitalized in connection with capital projects.

At December 31, 2008, a net carrying amount of $7.4 million (2007 – $8.3 million) included in machinery and equipment is held under capital leases, $10.0 million for cost (2007 – $10.4 million) and $2.6 million for accumulated amortization (2007 – $2.1 million).

16. Other assets

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

	2008	2007
Accrued benefit asset – pension plan (note 19)	$ 31.0	$ 16.6
Derivative financial instruments	34.7	5.0
Non-controlling interest (note 5)	15.9	16.1
Deferred charges and other	13.8	13.4
Deferred financing costs	5.1	–
Future income tax assets (note 10)	–	3.7
	$ 100.5	$ 54.8

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Amounts expressed in millions of dollars, except where otherwise stated

17. Accounts payable and accrued liabilities

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

	2008	2007
Trade payables	$ 115.3	$ 135.7
Accrued payroll and related liabilities	66.9	74.9
Restructuring and change-of-control (note 7)	14.0	20.0
Accrued benefit obligation – pension plan (note 19)	7.3	5.5
Accrued benefit obligation – other employee future benefit plans (note 19)	6.7	6.7
Derivative financial instruments	30.2	0.2
Accrued interest	10.9	9.2
Other	18.1	16.0
	$ 269.4	$ 268.2

18. Long-term debt

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

	2008	2007
Recourse		
Senior notes, 8.625% due June 2011 (US$400.0 million)	$ 485.1	$ 388.9
Senior notes, 7.375% due March 2014 (US$250.0 million)	306.9	246.6
	792.0	635.5
Revolving asset based loan facility of up to $330.0 million due August 2013	60.1	–
Revolving operating facility of up to $350.0 million due July 2009	–	47.1
Capital lease obligations	12.2	8.6
	864.3	691.2
Non-recourse		
First mortgage bonds, 6.387% due July 2009	74.9	74.6
Subordinated promissory notes	19.5	19.5
Short-term loan payable	–	0.5
	94.4	94.6
Total debt	958.7	785.8
Less: Current portion	(75.8)	(1.2)
	$ 882.9	$ 784.6

On August 13, 2008, the Company replaced its $350.0 million revolving operating facility maturing 2009 with a new $330.0 million revolving asset based loan facility ("ABL Facility") maturing August 2013. The ABL Facility will provide for ongoing working capital and capital expenditure requirements as well as for general corporate purposes. Collateral provided consists of all 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.

Borrowings under the 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 old and the new facilities averaged 5.8% in 2008 (2007 – 7.3%). A commitment fee at an applicable margin applies to the undrawn portion of the ABL Facility.

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The ABL Facility includes financial covenants to a) maintain shareholders' equity above $639.0 million as at December 31, 2008, 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, 2008, as calculated under the ABL Facility, shareholders' equity was $870.0 million (2007 – $988.6 million). The borrowing base at December 31, 2008 was $263.3 million and after drawings of $60.1 million, and outstanding letters of credit of $27.9 million, $175.3 million was available to the Company, in addition to cash on hand of $5.0 million.

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, 2008, 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 2.1:1 at December 31, 2008 (December 31, 2007 – 0.8:1). 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. The indenture for the 7.375% notes contains larger debt baskets, but while the 8.625% notes remain outstanding, the Company is bound by their more restrictive provisions. Also, the Company's restricted payments baskets under the 8.625% and 7.375% senior notes were negative $109.8 million and negative $84.8 million, respectively, as at December 31, 2008, as a result of accumulated losses in recent years (December 31, 2007 – negative $189.0 million and negative $164.0 million, respectively). Under the senior note covenants, the Company cannot pay dividends unless the balance in these baskets is positive.

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. The Company has reclassified its non-recourse debt of $74.9 million to current liabilities on its balance sheet as at December 31, 2008. It is anticipated that PREI will refinance this debt prior to its maturity in July 2009.

Scheduled total debt repayments	Recourse debt	Non-recourse debt (PREI)
2009	$ 1.0	$ 75.0
2010	1.0	–
2011	490.9	–
2012	4.0	–
2013	64.0	–
Thereafter	307.5	19.5
	$ 868.4	$ 94.5

Fair value of total debt

The following estimated fair values of the Company's total debt at December 31 have been determined based on management's best estimate of the fair value to refinance debt with similar terms at the respective year-end dates:

	2008	2007
Recourse	$ 414.3	$ 573.9
Non-recourse (PREI)	95.8	96.5
	$ 510.1	$ 670.4

Notes to Consolidated Financial Statements

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19. 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.

The defined benefit segment provides a pension based on years of service and earnings. 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 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.

Total cash payments

Total cash payments for employee future benefits for the year ending December 31, 2008, 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 $38.9 million (2007 – $36.2 million).

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 $15.5 million in 2008 (2007 – $17.2 million; 2006 – $18.0 million).

Defined benefit plan

The Company measures the fair value of plan assets and the accrued 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.

Change in accrued defined benefit plan obligation

The following table represents the change in the accrued benefit obligation as determined by independent actuaries:

	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
Accrued benefit obligations at beginning of year	$ 375.8	$ 376.5	$ 219.4	$ 227.6
Service cost for the year	5.2	5.3	4.6	5.1
Interest cost	19.3	18.2	11.5	11.4
Employee contributions	0.5	0.4	–	–
Benefit payments	(29.8)	(29.8)	(6.7)	(6.4)
Recognition of restructuring program (note 7)	7.5	12.6	–	–
Prior service (credits) costs	5.1	–	–	–
Actuarial loss (gain) and other adjustments	(49.3)	(7.4)	(65.1)	(18.3)
Accrued benefit obligations balance at end of year	$ 334.3	$ 375.8	$ 163.7	$ 219.4

Change in fair value of defined benefit plan assets

The following table represents the change in the fair value of assets of the defined benefit plans:

	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
Fair value of defined benefit plan assets at beginning of year	$ 276.4	$ 283.5	$ –	$ –
Actual return on plan assets	(54.6)	(1.1)	–	–
Employee contributions	0.5	0.4	–	–
Company contributions	26.7	24.4	6.7	6.4
Other	1.4	(1.0)	–	–
Benefit payments	(29.8)	(29.8)	(6.7)	(6.4)
Fair value of defined benefit plan assets at end of year	$ 220.6	$ 276.4	$ –	$ –

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Notes to Consolidated Financial Statements

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

Plan assets at December 31,	2008	2007
Equity securities	52.6%	60.5%
Fixed income securities	47.4%	39.5%
Total	100%	100.0%

Reconciliation of the funded status of the benefit plans to the amounts in the consolidated balance sheets

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, 2008 and 2007. 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. This difference between the funded status and the obligation recognized in the consolidated balance sheets, in accordance with Canadian GAAP, represents 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.

As at December 31, 2008, there was a total funding deficit of $113.7 million (2007 – $99.4 million) in the Company's various defined benefit pension plans. Of this amount, $53.0 million (2007 – $40.3 million) related to funded defined benefit pension plans and $60.7 million (2007 – $59.1 million) to "pay-as-you-go" unfunded defined benefit pension plans. In addition, the Company has other "pay-as-you-go" post-retirement benefit plans, consisting of group health care and life insurance, which had a deficit of $163.7 million at December 31, 2008 (2007 – $219.4 million).

	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
Accrued benefit obligation at end of year	$ 334.3	$ 375.8	$ 163.7	$ 219.4
Fair value of plan assets at end of year	220.6	276.4	–	–
Funded status-deficit	(113.7)	(99.4)	(163.7)	(219.4)
Unrecognized prior service (credits) costs	5.2	–	(1.5)	(1.7)
Unrecognized actuarial (gains) losses	86.7	68.2	(22.6)	45.0
Accrued benefit obligation recognized in the consolidated balance sheets	$ (21.8)	$ (31.2)	$ (187.8)	$ (176.1)

Classification of accrued obligations

The accrued benefit obligation is included in the Company's balance sheet as follows:

	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
Other assets (note 16)	$ 31.0	$ 16.6	$ –	$ –
Accounts payable and accrued liabilities (note 17)	(7.3)	(5.5)	(6.7)	(6.7)
Employee future benefits	(45.5)	(42.3)	(181.1)	(169.4)
	$ (21.8)	$ (31.2)	$ (187.8)	$ (176.1)

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Amounts expressed in millions of dollars, except where otherwise stated

Components of net periodic benefit cost recognized in the year

Pension benefit plans	2008	2007	2006
Defined benefit costs			
Service cost for the year	$ 5.2	$ 5.3	$ 6.9
Interest cost	19.3	18.2	17.8
Actual return on assets	54.6	1.1	(37.7)
Actuarial (gain)/loss	(51.5)	(9.0)	14.2
Prior service costs	5.1	–	–
Settlement loss	–	0.5	–
Recognition of restructuring program (note 7)	7.5	12.6	–
Difference between actual and expected return	(73.9)	(20.7)	20.3
Difference between actual and recognized actuarial (gain)/loss and other	56.4	11.6	(7.7)
Difference between actual and recognized prior service costs	(5.1)	–	–
	17.6	19.6	13.8
Defined contribution cost			
Service cost for the year	5.5	5.3	5.5
Net periodic benefit cost for pension benefit plans	$ 23.1	$ 24.9	$ 19.3

Other benefit plans	2008	2007	2006
Defined benefit costs			
Service cost for the year	$ 4.6	$ 5.1	$ 5.6
Interest cost	11.5	11.4	10.9
Actuarial (gain)/loss	(66.2)	(18.3)	0.4
Difference between actual and recognized actuarial (gain)/loss and other	68.0	21.5	3.0
Difference between actual and recognized prior service (credits) costs	(0.2)	(0.2)	(0.2)
Net periodic benefit cost for other benefit plans	$ 17.7	$ 19.5	$ 19.7

Significant assumptions

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

	2008	2007
Benefit obligations at December 31,		
Discount rate	7.0%	5.25%
Rate of compensation increase	2.50%	2.50%
Net benefit cost for year ended December 31,		
Discount rate	5.25%	5.00%
Rate of compensation increase	2.50%	3.00%
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	7.50%	8.00%
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	4.0%	4.00%
Medical services plan benefits		
Premium trend rate	2.0%	2.00%

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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 2008:

	Other benefit plans	
	Increase	Decrease
Total of service and interest cost	$ 3.3	$ (2.7)
Accrued benefit obligation at December 31	$ 26.5	$ (22.3)

20. Other long-term obligations

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

	2008	2007
Restructuring and change-of-control liabilities (note 7)	$ 2.3	$ 8.1
Forward foreign currency contracts hedging long-term debt	–	5.4
Environmental and remedial	6.8	9.2
Other	4.2	4.2
	$ 13.3	$ 26.9

21. Deferred credits

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

	2008	2007
Beginning of year	$ 21.7	$ 25.5
Adjustment related to utilization of acquired tax losses	(2.7)	(2.3)
Adjustment resulting from reduction in corporate income tax rates	(0.4)	(1.5)
End of year	$ 18.6	$ 21.7

22. Share capital

(a) Authorized

The Company is authorized to issue 100,000,000 preferred shares and an unlimited number of common shares.

(b) Issued and outstanding

	2008		2007	
	Shares	$	Shares	$
Issued and outstanding:				
Common shares	381,753,490	1,035.0	214,684,129	913.9

23. Stock-based compensation plans

(a) Details of stock-based compensation expense

	2008	2007	2006
Stock option awards	$ 1.0	$ 2.4	$ 2.0
Restricted share units	1.5	0.8	–
Deferred share units	0.2	0.2	0.9
	$ 2.7	$ 3.4	$ 2.9

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(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.

Options granted, other than those granted pursuant to the Company's mid and long-term incentive plan, 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, for all options other than those 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 Toronto Stock Exchange ("TSX") during the five consecutive trading days preceding 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 has granted stock options to its key executives that are time and performance based. These options vest on December 31, 2009 subject to certain conditions being met. 50% of the total number of stock options will vest if the executive remains employed with the Company on December 31, 2009, subject to a minimum return on capital employed benchmark. The remaining 50% of the options will vest subject to the achievement of a relative return on capital employed compared to that of an industry peer group. These options have a term of seven years.

The Company applies the 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 has been based on management's best estimate of the outcome of the performance conditions in accordance with CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments."

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

	2008	2007	2006
Risk-free interest rate	3.8%	4.5%	4.0%
Annual dividends per share	Nil	Nil	Nil
Expected stock price volatility	40.0%	30.5%	30.6%
Expected option life (in years)	8.5	7.0	4.0
Average fair value of options granted (in dollars)	$ 0.51	$ 1.25	$ 1.02

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. Forfeitures were recognized as they occurred.

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

	2008		2007		2006	
	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	3,964,024	$ 3.43	8,171,000	$ 4.35	8,409,500	$ 5.00
Granted	2,691,891	1.23	1,984,624	3.20	1,836,000	3.37
Exercised	–	–	(80,009)	3.31	–	–
Expired or cancelled	(811,931)	3.42	(6,111,591)	4.58	(2,074,500)	6.08
End of year	5,843,984	2.42	3,964,024	3.43	8,171,000	4.35

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The following table summarizes information about stock options outstanding and exercisable at December 31, 2008:

	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)
\$1.15 – \$1.95	2,691,891	7.5	\$ 1.23	–	\$ –	\$ –
\$3.06 – \$3.30	1,734,093	5.8	3.08	143,334	3.24	4.66
\$3.31 – \$3.77	875,500	6.6	3.50	724,500	3.52	5.03
\$4.39 – \$4.57	542,500	6.1	4.45	422,500	4.42	5.41
	5,843,984	6.7	\$ 2.42	1,290,334	\$ 3.78	\$ 5.11

(c) Restricted share units

The Company has established a Restricted Share Unit 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 restricted share units ("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.

Compensation expense related to performance-based RSUs is based on management's best estimate of the outcome of the performance conditions in accordance with CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments."

Changes in the number of outstanding RSUs during the year ended December 31, 2008 were as follows:

	Number of shares	Weighted average fair value at grant date (in dollars)
Beginning of year	1,686,307	\$ 3.20
Granted	755,785	1.05
Expired or cancelled	(163,072)	(3.11)
End of year	2,279,020	\$ 2.94

(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, 2008, 646,119 DSUs were outstanding under this plan (2007 – 365,188 DSUs) and approximately \$0.3 million was payable (2007 – \$0.6 million).

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24. 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. Cash and cash equivalents are designated as held for trading and recorded at fair market values. Accounts receivable are designated as loans and receivables and are recorded at amortized cost. Accounts payable and accrued liabilities and long-term debt are designated as other liabilities and recorded at amortized cost. The Company has no non-derivative financial instruments classified as available for sale or held to maturity. 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.

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.

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:

	2008	2007
Trade receivables, gross		
Current	$ 177.8	$ 164.8
Past due 1-30 days	24.5	29.7
Past due 31-90 days	4.0	2.0
Past due over 90 days	0.3	0.5
	206.6	197.0
Allowance for doubtful accounts	(3.2)	(2.8)
Trade receivables, net	203.4	194.2
Other receivables, including GST recoverables	18.3	18.9
Accounts receivable (note 12)	$ 221.7	$ 213.1

The movement in the allowance for doubtful accounts in respect of trade receivables during the years ended December 31 were as follows:

	2008	2007
Balance, beginning of year	$ 2.8	$ 3.1
Increase in provision	3.1	–
Utilized in the year	(2.7)	(0.3)
Balance, end of year (note 12)	$ 3.2	$ 2.8

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The Company has 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.

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 33% 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, pulp, and white top linerboard 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 10% 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 and white top linerboard outputs, 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 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, 2008	Currency and notional amount ($millions)	Change in rate or price	Net earnings ($millions)	Other comprehensive income ($millions)	Net earnings ($millions)	Other comprehensive income ($millions)
Revenue hedges – currency risk (US$/C$)	US$570	5%	5.9	6.8	(6.4)	(7.4)
Revenue hedges – price risk (commodities)	US$11	5%	(0.4)	–	0.4	–
Oil and natural gas hedges – price risk (commodities)	C$4	5%	0.1	–	(0.1)	–
Old newspaper ("ONP") hedges – price risk (commodities)	US$3	5%	0.1	–	(0.1)	–
U.S. debt hedges – currency risk (US$/C$)	US$190	10%	(6.1)	–	7.1	–
ABL Facility – interest risk (annualized)	C$60	100 bps	(0.4)	–	0.4	–

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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 always 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, 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
As at December 31, 2007						
0 to 12 months	$ 496	0.9688	$ 106	0.9190	$ 47	1.0001
13 to 24 months	38	1.0355	–	–	–	–
	$ 534	0.9733	$ 106	0.9190	$ 47	1.0001

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, 2008, instruments having a notional principal of US$425 million are designated as hedging instruments. At year-end exchange rates, the net amount the Company would pay to settle the above contracts and options is $26.9 million (December 31, 2007 – positive $32.9 million).

At December 31, 2008, commodity swap agreements are outstanding to fix the sales price of 3,500 metric tonnes of NBSK pulp within the next three months and 1,500 short tons of white top linerboard within the next six months. In addition, a commodity swap agreement to fix the sales price of newsprint and purchase price of ONP within the next eleven months is outstanding for 11,000 tonnes. These contracts are not designated as hedging instruments for accounting purposes and are reported at their fair value, which was $0.6 million at the end of the year (December 31, 2007 – negative $1.0 million).

(c) Cost risk management instruments

	Options			
	Sold		Purchased	
Term	GJ (millions)	Average rate C$/GJ	GJ (millions)	Average rate C$/GJ
As at December 31, 2008	0.5	$ 7.63	0.5	$ 8.00
As at December 31, 2007	0.6	$ 6.07	1.0	$ 7.98

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The above instruments are not designated as hedging instruments for accounting purposes. At period-end contract rates, the net amount the Company would pay to settle these commodity contracts is $0.8 million (December 31, 2007 – $0.2 million).

The Company had no oil contracts and options outstanding at December 31, 2008. Oil contracts and options outstanding at December 31, 2007 were not significant.

At December 31, 2008, commodity swap agreements to fix the purchase price of ONP within the next ten months are outstanding for 40,000 tonnes. These contracts are not designated as hedging instruments for accounting purposes and are reported at their fair value, which was negative $0.9 million at the end of the year. The Company had no such swap agreements outstanding at December 31, 2007.

(d) Long-term debt risk management instruments

The Company is party to forward foreign currency contracts or options to acquire U.S. dollars totalling US$190 million (December 31, 2007 – US$228 million) over a six-year period at rates averaging US$/C$0.9334. These instruments are not designated as hedging instruments for accounting purposes, and are included in "Other assets" on the balance sheet at their fair value. Settlements and changes in fair value are recognized in "Foreign exchange gain (loss) on long-term debt". At period-end exchange rates, the net amount the Company would receive to settle these contracts is $34.2 million (December 31, 2007 – negative $5.4 million).

(e) Interest rate swaps

The Company has no fixed-to-floating interest rate swaps outstanding at December 31, 2008.

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 the ineffective portion was recognized in "Interest expense, net".

(f) Fair value of financial instruments

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

25. 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. 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 did not undertake any transactions with TAM during the year ended December 31, 2007.

Related parties also included Norske Skogindustrier ASA ("Norske Skog"), together with its subsidiaries and affiliates, up to February 16, 2006 when Norske Skog disposed of its 29.4% interest in the Company.

Transactions or balances with these related parties not otherwise disclosed in these financial statements were as follows:

	2008	2007	2006
Norske Skog			
Selling, general and administrative	$ –	$ –	$ 0.2

In prior years, the Company acquired from wholly-owned subsidiaries of Fletcher Challenge Limited, now subsidiaries of Norske Skog, companies with tax losses. The purchase price of these companies is subject to adjustment under certain conditions. At December 31, 2008, there was no outstanding balance with respect to such adjustments (2007 – $nil; 2006 – $nil). During 2006, the Company collected $4.3 million in respect of the adjustments.

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 2008, the Company paid aggregate fees of approximately $10.0 million (2007 – $8.7 million; 2006 – $0.4 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. In addition, the Company paid $nil (2007 – $0.7 million; 2006 – $3.9 million) primarily for chemicals used in the manufacturing process to a company affiliated with a former officer and director of the Company.

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26. Commitments

(a) 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:

2009	$ 10.3
2010	9.0
2011	8.4
2012	6.1
2013	5.7
Subsequent years	28.0
	$ 67.5

The total lease expense amounted to $11.9 million in 2008 (2007 – $12.3 million; 2006 – $13.0 million).

(b) The Company has entered into a six-year take-or-pay contract for the purchase of recycled paper used in the production of its paper products. The agreement, effective May 1, 2006, provides for minimum purchase quantities of recycled paper and prices are based on market rates at the beginning of each month. Total purchases in 2008 amounted to $2.4 million (2007 – $2.1 million). At current market rates, the Company is expected to pay approximately $1.9 million per year for the duration of the contract.

27. 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 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 5). As at December 31, 2008, the value of the mortgage was $9.6 million (2007 – $10.6 million). This agreement does not increase the Company's liability beyond the obligation under the building lease.

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28. 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, 2008, 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.

The Company is party to a 20-year Energy Services Agreement with Island Cogeneration No.2 Inc. ("ICP"), the owner of a cogeneration facility at the Company's Elk Falls mill site. The agreement has a minimum take-or-pay obligation in respect of steam, subject to terms, which obligation became operative in 2001. Due to the unavailability of sawdust fibre from the Company's traditional sources of supply in British Columbia, which led to the closure of the Elk Falls pulp and white top linerboard operation in November 2008, the Company is currently unable to take steam from the ICP facility. Accordingly, the Company declared force majeure by notice to ICP effective November 30, 2008. ICP has disputed the force majeure declaration (which applied to the period following the closure of the pulp mill as well as prior periods in the year during which sawdust fibre was unavailable) and has filed an arbitration notice indicating its intention to arbitrate the issue. The arbitration schedule is not yet known, however the arbitration hearing may commence at some point in the latter part of 2009. Under the agreement, the Company has certain obligations to attempt to counter its inability to take the steam and it is exploring possible alternatives in this regard. The proceedings are in their early stages and the Company has not recorded a liability for this contingency since the likelihood and amount of any potential liability cannot be reasonably estimated. Should the ultimate resolution differ from the Company's assessment, a material adjustment to the Company's financial position and the results of its operations could result. The Company expects in any event to incur significant legal fees in connection with this matter. As at December 31, 2008, the Company estimates that the cost of the steam that it has been unable to take due to the force majeure event was approximately $4 million. The Company estimates that the monthly cost of the steam that it is unable to take due to the force majeure event is approximately $1.0 million to $1.5 million.

29. Accounting policy developments

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 intangible assets on its balance sheet and as such does not expect this standard to have an impact on the Company's consolidated financial statements.

In February 2008, the Canadian Accounting Standards Board confirmed its decision requiring all publicly accountable entities to report under International Financial Reporting Standards ("IFRS"). This decision establishes standards for financial reporting with the aim of consistency in the global marketplace. These standards are effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company has completed an initial scoping phase which involves performing a high-level impact assessment to identify key areas that may be impacted by the transition to IFRS and the major areas where significant complexities or key decisions are required by management prior to implementation. Detailed assessment of significant differences is provided in the Company's 2008 annual Management's Discussion and Analysis. As an alternative, the Company is also considering the implications of a transition to U.S. GAAP and expects to make a final determination during 2009.

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30. Reconciliation of Canadian and United States generally accepted accounting principles

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP, which differ in some respects from U.S. GAAP. The following are the significant differences in accounting principles as they pertain to the consolidated earnings and consolidated balance sheets:

Net earnings adjustments

The following table provides a reconciliation of the net earnings (loss) for the years ended December 31 from Canadian GAAP to U.S. GAAP:

	2008	2007	2006
Net earnings (loss) as reported under Canadian GAAP	$ (221.1)	$ (31.6)	$ (15.9)
U.S. dollar revenue hedges (a)	–	–	(9.4)
U.S. dollar long-term debt hedges (b)	–	–	(0.7)
Fixed-to-floating interest swaps (c)	–	–	(0.8)
Foreign exchange gain (loss) on hedge of net investment (d)	2.4	–	–
Income tax impact effect of rate change	(1.1)	(4.9)	1.1
Net earnings (loss) in accordance with U.S. GAAP	(219.8)	(36.5)	(25.7)
Other comprehensive income:			
Other comprehensive income in accordance with Canadian GAAP (e)	(18.5)	14.3	–
Reclass of amortization of employee future benefits included in pension cost, net of future income taxes of $3.6 million (2007 – $5.1 million)	10.3	13.9	–
Employee future benefits liability adjustment, net of future income taxes of $8.1 million (2007 – $2.2 million)	22.8	(5.8)	–
Minimum pension liability adjustment, net of future income taxes of $nil (2006 – $3.6 million) (e)	–	–	7.9
Reclassification of effective portion of U.S. dollar hedges on de-designation, net of future income taxes of $nil (2006 – $5.2 million) (a)	–	–	(11.3)
Effective portion of U.S. dollar revenue hedges, net of future income taxes of $nil (2006 – $2.8 million) (a)	–	–	6.1
Comprehensive income (loss) in accordance with U.S. GAAP	$ (205.2)	$ (14.1)	$ (23.0)
Basic and diluted net earnings (loss) per share in accordance with U.S. GAAP (in dollars)	(0.65)	(0.17)	(0.12)
Basic and diluted weighted average number of shares in accordance with U.S. GAAP (in millions)	336.1	214.7	214.6

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The following table presents the consolidated statements of earnings under Canadian and U.S. GAAP:

Years ended December 31,	2008		2007		2006	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Sales	$ 1,849.4	$ 1,849.4	$ 1,714.6	$ 1,714.6	$ 1,882.5	$ 1,873.2
Operating expenses						
Cost of sales	1,613.0	1,613.0	1,574.6	1,574.6	1,609.3	1,609.3
Selling, general and administrative	46.9	46.9	48.3	48.3	62.2	62.2
Restructuring and change-of-control	30.1	30.1	64.7	64.7	–	–
Amortization	165.8	165.8	176.4	176.4	183.7	183.7
Impairment	151.0	151.0	–	–	23.4	23.4
	2,006.8	2,006.8	1,864.0	1,864.0	1,878.6	1,878.6
Operating earnings (loss)	(157.4)	(157.4)	(149.4)	(149.4)	3.9	(5.4)
Interest expense, net	(75.0)	(75.0)	(70.7)	(70.7)	(73.8)	(74.6)*
Foreign exchange gain (loss) on long-term debt	(82.2)	(82.2)	103.9	103.9	(0.3)	(1.0)
Other income (expense), net	2.5	4.9	(15.3)	(15.3)	1.8	1.8
Earnings (loss) before income taxes and non-controlling interest	(312.1)	(309.7)	(131.5)	(131.5)	(68.4)	(79.2)
Income tax recovery	(91.8)	(90.7)	(100.0)	(95.1)	(54.0)	(55.0)
Net earnings (loss) before non-controlling interest	(220.3)	(219.0)	(31.5)	(36.4)	(14.4)	(24.2)
Non-controlling interest	(0.8)	(0.8)	(0.1)	(0.1)	(1.5)	(1.5)
Net earnings (loss)	$ (221.1)	$ (219.8)	$ (31.6)	$ (36.5)	$ (15.9)	$ (25.7)
Other comprehensive income	(18.5)	14.6	14.3	22.4	–	2.7
Comprehensive income (loss)	$ (239.6)	$ (205.2)	$ (17.3)	$ (14.1)	$ (15.9)	$ (23.0)
Basic and diluted earnings (loss) per share (in dollars)	$ (0.66)	$ (0.65)	$ (0.15)	$ (0.17)	$ (0.07)	$ (0.12)
Weighted average common shares outstanding (in millions)	336.1	336.1	214.7	214.7	214.6	214.6

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Balance sheet adjustments

The following table provides a reconciliation of the consolidated balance sheet components at December 31 from Canadian GAAP to U.S. GAAP:

	2008	2007
Property, plant and equipment – Canadian GAAP	$ 1,852.0	$ 1,912.8
Foreign exchange gain (loss) on hedge of net investment (d)	2.4	–
Property, plant and equipment – U.S. GAAP	$ 1,854.4	$ 1,912.8
Other assets – Canadian GAAP	$ 100.5	$ 54.8
Employee future benefits (e)	(30.8)	(17.1)
Deferred financing costs (g)	11.2	14.4
Other assets – U.S. GAAP	$ 80.9	$ 52.1
Long-term debt – Canadian GAAP	$ 882.9	$ 784.6
Deferred financing costs (g)	11.2	14.4
Long-term debt – U.S. GAAP	$ 894.1	$ 799.0
Employee future benefits – Canadian GAAP	$ 226.6	$ 211.7
Employee future benefits (e)	36.6	95.1
Employee future benefits – U.S. GAAP	$ 263.2	$ 306.8
Future income taxes – Canadian GAAP	$ 66.8	$ 154.2
Tax effect of employee future benefits adjustment (e)	(25.9)	(37.6)
Tax effect of other adjustments	8.4	7.3
Future income taxes – U.S. GAAP	$ 49.3	$ 123.9
Shareholders' equity – Canadian GAAP	$ 870.0	$ 988.6
Foreign exchange gain (loss) on hedge of net investment (d)	2.4	–
Employee future benefits (e)	(67.4)	(112.2)
Tax effect of employee future benefits adjustment (e)	25.9	37.6
Tax effect of other adjustments	(8.4)	(7.3)
Shareholders' equity – U.S. GAAP	$ 822.5	$ 906.7

The following table provides a reconciliation of accumulated other comprehensive income at December 31 from Canadian GAAP to U.S. GAAP:

	2008	2007
Accumulated other comprehensive income – Canadian GAAP	$ (4.9)	$ 13.6
Employee future benefits – adoption of FAS 158	(41.5)	(74.6)
Accumulated other comprehensive income (loss) – U.S. GAAP	$ (46.4)	$ (61.0)

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Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

The following table presents the consolidated balance sheets under Canadian and U.S. GAAP:

As at December 31,	2008		2007	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Assets				
Current assets				
Cash and cash equivalents	$ 5.0	$ 5.0	$ –	$ –
Accounts receivable	221.7	221.7	213.1	213.1
Inventories	211.4	211.4	235.7	235.7
Prepaids and other	32.8	32.8	40.7	40.7
	470.9	470.9	489.5	489.5
Property, plant and equipment	1,852.0	1,854.4	1,912.8	1,912.8
Other assets	100.5	80.9	54.8	52.1
	$ 2,423.4	$ 2,406.2	$ 2,457.1	$ 2,454.4
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$ 269.4	$ 269.4	$ 268.2	$ 268.2
Current portion of long-term debt	75.8	75.8	1.2	1.2
	345.2	345.2	269.4	269.4
Long-term debt	882.9	894.1	784.6	799.0
Employee future benefits	226.6	263.2	211.7	306.8
Other long-term obligations	13.3	13.3	26.9	26.9
Future income taxes	66.8	49.3	154.2	123.9
Deferred credits	18.6	18.6	21.7	21.7
	1,553.4	1,583.7	1,468.5	1,547.7
Shareholders' equity				
Share capital	1,035.0	1,035.0	913.9	913.9
Contributed surplus	14.6	14.6	12.1	12.1
Retained earnings	(174.7)	(180.7)	49.0	41.7
Accumulated other comprehensive income (loss)	(4.9)	(46.4)	13.6	(61.0)
	870.0	822.5	988.6	906.7
	$ 2,423.4	$ 2,406.2	$ 2,457.1	$ 2,454.4

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Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

(a) U.S. dollar revenue hedges

Effective January 1, 2007, the Company adopted the new Canadian accounting standards that require entities to record its derivatives at fair value. Changes in the fair value of designated contracts, during the period of designation, are recorded in other comprehensive income, net of tax, until the hedged item is recognized. Changes in the fair value of undesignated contracts are recognized in income. Prior to January 1, 2007, under Canadian GAAP, translation gains and losses on foreign currency options and forward contracts to sell foreign currencies that were designated as hedges were recognized concurrently with the hedged revenue in "Sales". The adoption of new Canadian standards have eliminated this difference.

(b) U.S. dollar long-term debt hedges

Under Canadian GAAP, prior to January 1, 2004, the Company designated foreign currency contracts related to its U.S. dollar debt as hedges. The forward premium or discount on forward foreign currency contracts used to hedge the U.S. dollar long-term debt was amortized to interest expense over the term of the forward contract. Effective January 1, 2004, foreign currency contracts related to U.S. dollar debt are not designated as hedges. Under U.S. GAAP, the Company does not account for such contracts as hedges of long-term debt and recognizes the foreign currency contracts on a fair value basis at each reporting period. The adoption of new Canadian standards on January 1, 2007 eliminated this difference.

(c) Fixed-to-floating interest swaps

Effective January 1, 2007, the Company adopted the new Canadian accounting standards that recognize the unrealized gains and losses on interest rate swap contracts in the financial statements. The ineffectiveness of the hedge is quantified, and the ineffective portion of the changes in fair value is recorded in interest expense. Prior to January 1, 2007, unrealized gains and losses on interest rate swap contracts designated as hedges were not recognized in the financial statements under Canadian GAAP. The adoption of new Canadian standards have eliminated this difference.

(d) Foreign exchange on hedge of net investment

Under Canadian GAAP, the Company designated a forward contract as a hedge of the purchase price on the acquisition of the Snowflake mill. The foreign exchange gain was accounted for as a reduction of the net investment. Under U.S. GAAP, the Company has eliminated the GAAP difference by recognizing the foreign exchange gain in earnings.

(e) Employee future benefits

Effective December 31, 2006, the Company adopted Financial Accounting Standards ("FAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans". This statement 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 changes in that funded status in the year in which the changes occur through comprehensive income. This new standard replaced the U.S. GAAP requirement to recognize an additional minimum pension liability in cases where the accumulated benefit obligation exceeded the market value of plan assets. The portion of this additional liability that related to unrecognized prior service cost was recognized as an intangible asset while the remainder was charged to comprehensive income (loss). There is no change in the calculation of the pension and other employee future benefits expense. Canadian GAAP has no such requirement.

(f) Comprehensive income

Statement of FAS No. 130, "Reporting Comprehensive Income", requires that a company classify items of other comprehensive income in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. The concept of comprehensive income exists under Canadian GAAP, but applies to fiscal years beginning on or after October 1, 2006 and applies to the Company commencing in its 2007 fiscal year.

(g) Debt issue costs

Effective January 1, 2007, on adoption of the new Canadian accounting standards, the Company netted its debt issue costs associated with its senior notes against the carrying value of debt. Under U.S. GAAP, debt issue costs are reported in the balance sheet as deferred charges.

Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

(h) Future income taxes

On January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes". FIN 48 clarifies the accounting for uncertainty in income taxes and uses 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 there is a greater than 50 per cent likelihood 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 greater than 50 per cent likely of being realized upon settlement. The unresolved uncertain tax positions must be reassessed at each balance sheet date based on these thresholds. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is effective for fiscal years beginning after December 31, 2006.

The Company did not record any unrecognized tax benefits as a result of applying this interpretation.

A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of 2008 is as follows:

Unrecognized tax benefits, beginning of year	$ 16.9
Increases – tax positions taken in prior periods	–
Decreases – tax positions taken in prior periods	(2.5)
Current period tax positions	–
Settlements	(2.6)
Lapse of statute of limitations	–
Decrease resulting from tax rate reduction	(0.1)
Unrecognized tax benefits, end of year	$ 11.7

The above balance, if recognized, would affect the Company's effective tax rate. Total amount of interests and penalties related to the above amount is $nil.

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, 2002 have been audited by the Canadian federal taxing authorities. The Canadian federal taxing authorities are presently auditing the December 31, 2003, December 31, 2004, and December 31, 2005 taxation years of the Canadian entities. The Company is 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-2005 tax years expired on September 15, 2008.

(i) Shareholders' equity

Accumulated other comprehensive income is recorded as a separate component of shareholders' equity under U.S. GAAP. The concept of accumulated other comprehensive income exists under Canadian GAAP, but applies to fiscal years beginning on or after October 1, 2006 and applies to the Company commencing in its 2007 fiscal year.

(j) Consolidated cash flows

Under U.S. GAAP, the consolidated cash flows would not be significantly different from the presentation under Canadian GAAP, except that U.S. GAAP does not allow sub-totals within cash flows provided by operations.

(k) Changes in accounting policies

Fair value measurement

FASB issued FAS 157, "Fair Value Measurement", which clarifies the definition of "fair value" applicable under all United States accounting standards, with some limited exceptions. The standard establishes a single definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The objective of the standard is to increase consistency, reliability and comparability in fair value measurements, and to enhance disclosures to help users of financial statements assess the effects of the fair value measurements used in financial reporting. The framework provides a hierarchy for reliably determining fair value based on the definition in the standard. This standard is effective November 1, 2008. For the year ended December 31, 2008, the Company has adopted this standard under Canadian GAAP and as a result there is no difference.

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Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

FASB issued FAS 159, "Fair Value Option for Financial Assets and Liabilities", which allows entities to elect fair value accounting to certain financial assets and liabilities. The adoption of this standard had no impact on the Company's consolidated financial statements.

FASB issued FAS 140-e, "Disclosure About Transfers of Financial Assets and Interests in Variable Interest Entities", that requires additional disclosures relating to retained interest in financial assets and provides guidance on how a primary beneficiary is determined as a VIE. The adoption of this standard had no impact on the Company's consolidated financial statements.

(l) Changes in future accounting policies

FASB has issued the following announcements:

(i) FAS 141R – "Business Combinations", provides new guidance on accounting for business combinations, on how entities should approach financial planning and reporting around business combinations. This will require entities to be more transparent in demonstrating the values of assets and liabilities. This standard is effective for fiscal years beginning after December 15, 2008.

(ii) FAS 160 – "Non-controlling Interests in Consolidated Financial Statements", has been issued to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing specific accounting and reporting standards. This standard is effective for fiscal years beginning on or after December 15, 2008

(iii) FAS 161 – "Disclosures About Derivative Instruments and Hedging Activities". This standard requires enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The standard is effective for fiscal years beginning after November 15, 2008.

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Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

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Consolidated Statements of Earnings

Years ended December 31 (In millions of dollars)	2008	2007	2006	2005	2004	2003	2002	2001
Sales	$1,849.4	$ 1,714.6	$ 1,882.5	$ 1,823.9	$ 1,878.2	$ 1,820.5	$ 1,704.0	$ 1,561.1
Operating expenses								
Cost of sales	1,613.0	1,574.6	1,609.3	1,604.3	1,674.9	1,687.5	1,582.1	1,286.6
Selling, general and administrative	46.9	48.3	62.2	57.7	50.5	54.7	65.3	63.6
Restructuring and change-of-control	30.1	64.7	–	6.7	–	–	–	–
Amortization	165.8	176.4	183.7	180.3	184.1	189.9	178.5	131.2
Impairment	151.0	–	23.4	–	–	–	–	–
	2,006.8	1,864.0	1,878.6	1,849.0	1,909.5	1,932.1	1,825.9	1,481.4
Operating earnings (loss)	(157.4)	(149.4)	3.9	(25.1)	(31.3)	(111.6)	(121.9)	79.7
Interest expense, net	(75.0)	(70.7)	(73.8)	(75.7)	(74.9)	(75.0)	(76.2)	0.9
Foreign exchange gain (loss) on long-term debt	(82.2)	103.9	(0.3)	24.7	53.5	58.2	12.3	(17.1)
Write-down of property, plant and equipment	–	–	–	–	–	(14.2)	–	–
Loss on repayment of long-term debt	–	–	–	–	(5.2)	–	–	–
Other income (expense), net	2.5	(15.3)	1.8	4.5	1.2	(3.9)	(13.3)	(40.2)
Earnings (loss) before income taxes and non-controlling interest	(312.1)	(131.5)	(68.4)	(71.6)	(56.7)	(146.5)	(199.1)	23.3
Income tax recovery	(94.8)	(100.0)	(54.0)	(46.6)	(28.1)	(62.0)	(75.8)	(21.2)
Net earnings (loss) before non-controlling interest	(220.3)	(31.5)	(14.4)	(25.0)	(28.6)	(84.5)	(123.3)	44.5
Non-controlling interest	(0.8)	(0.1)	(1.5)	(0.6)	–	–	–	–
Net earnings (loss)	$ (221.1) $	(31.6) $	(15.9) $	(25.6) $	(28.6) $	(84.5) $	(123.3)	44.5
Other comprehensive income (loss) [1]	(18.5)	14.3	–	–	–	–	–	–
Comprehensive income (loss) [1]	$ (239.6) $	(17.3) $	(15.9) $	(25.6) $	(28.6) $	(84.5) $	(123.3)	44.5

1 Effective January 1, 2007, the Company adopted the new CICA Section 3855, "Financial Instruments – Recognition and Measurement", Section 1530, "Comprehensive Income", Section 3865, "Hedges", Section 3861, "Financial Instruments – Disclosure and Presentations" and Section 3251, "Equity". These standards introduce new requirements for recognition, measurement and disclosure of financial instruments, when and how hedge accounting may be applied, establishes the concept of comprehensive income and rules for operating it, and establishes rules for the presentation of equity and changes in equity. Prior period financial statements are not revised for the adoption of these new standards.

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Consolidated Balance Sheets

As at December 31 (In millions of dollars)	2008	2007	2006	2005	2004	2003	2002	2001
Assets								
Current assets								
Cash and cash equivalents	$ 5.0	$ –	$ 35.5	$ –	$ 26.0	$ –	$ –	$ 104.8
Marketable securities	–	–	–	–	–	–	–	34.4
Accounts receivable	221.7	213.1	277.9	246.7	236.8	238.2	279.1	309.2
Inventories	211.4	235.7	245.0	245.7	258.1	235.9	242.7	230.5
Prepaids and other	32.8	40.7	15.4	24.1	24.6	21.9	9.2	4.1
	470.9	489.5	573.8	516.5	545.5	496.0	531.0	683.0
Property, plant and equipment	1,852.0	1,912.8	2,023.1	2,139.3	2,172.9	2,290.2	2,326.6	2,416.4
Other assets	100.5	54.8	44.4	44.9	32.8	36.7	47.1	60.4
	$ 2,423.4	$ 2,457.1	$ 2,641.3	$ 2,700.7	$ 2,751.2	$ 2,822.9	$ 2,904.7	$ 3,159.8
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	$ 269.4	$ 268.2	$ 291.5	$ 278.6	$ 284.8	$ 266.6	$ 303.0	$ 303.5
Current portion of long-term debt	75.8	1.2	1.8	0.8	0.7	0.7	0.7	10.7
	345.2	269.4	293.3	279.4	285.5	267.3	303.7	314.2
Long-term debt	882.9	784.6	858.7	866.5	828.4	850.9	891.6	1,163.9
Employee future benefits	226.6	211.7	187.2	171.6	165.2	183.5	163.7	133.6
Other long-term obligations	13.3	26.9	23.3	33.5	63.6	61.2	7.9	11.1
Future income taxes/ deferred credits	85.4	175.9	273.0	330.0	365.7	390.8	413.1	500.5
	1,553.4	1,468.5	1,635.5	1,681.0	1,708.4	1,753.7	1,780.0	2,123.3
Shareholders' equity								
Share capital	1,035.0	913.9	913.6	913.6	913.6	913.6	884.6	673.1
Contributed surplus	14.6	12.1	9.3	7.3	4.8	–	–	–
Retained earnings (deficit)	(174.7)	49.0	82.9	98.8	124.4	155.6	240.1	363.4
Accumulated other comprehensive income (loss)[1]	(4.9)	13.6	–	–	–	–	–	–
	870.0	988.6	1,005.8	1,019.7	1,042.8	1,069.2	1,124.7	1,036.5
	$2,423.4	$ 2,457.1	$ 2,641.3	$ 2,700.7	$ 2,751.2	$ 2,822.9	$ 2,904.7	$ 3,159.8

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Consolidated Statements of Cash Flows

Years ended December 31 (In millions of dollars)	2008	2007	2006	2005	2004	2003	2002	2001
Cash flows provided (used) by:								
Operations								
Net earnings (loss)	$ (221.1) $	(31.6) $	(15.9) $	(25.6) $	(28.6) $	(84.5) $	(123.3) $	44.5
Items not requiring (providing) cash								
Amortization	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	151.0	–	23.4	–	–	14.2	–	–
Loss (gain) on disposal of property, plant and equipment	(0.4)	13.6	(1.1)	1.6	1.1	0.7	(0.3)	30.2
Future income taxes	(93.5)	(100.7)	(56.1)	(51.6)	(31.3)	(67.9)	(91.5)	(7.7)
Foreign exchange loss (gain) on long-term debt	82.2	(103.9)	0.3	(24.7)	(53.5)	(58.2)	(12.3)	17.1
Employee future benefits, excess of expense over funding	2.9	6.7	6.4	(0.2)	5.2	19.8	13.9	4.9
Increase (decrease) in other long-term obligations	(5.1)	7.5	0.9	(7.4)	(11.4)	(14.0)	(11.6)	–
Non-controlling interest	0.8	0.1	1.5	0.6	–	–	–	–
Lower of cost or market write-down of inventories	5.9	1.8	(2.0)	0.5	1.5	(1.0)	–	–
Other	22.3	(20.9)	(6.3)	(0.8)	(6.4)	(11.6)	8.5	14.8
	110.8	(51.0)	134.8	72.7	60.7	(12.6)	(38.1)	235.0
Changes in non-cash working capital	(35.1)	48.3	(7.6)	(12.0)	(25.9)	23.4	25.8	31.2
Cash flows provided (used) by operations	75.7	(2.7)	127.2	60.7	34.8	10.8	(12.3)	266.2
Investing								
Acquisition of Snowflake newsprint mill	(169.8)	–	–	–	–	–	–	–
Acquisition of paper recycling business	–	–	–	–	–	(32.1)	–	–
Acquisition of Pacifica Papers Inc.	–	–	–	–	–	–	–	(74.1)
Additions to property, plant and equipment	(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	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	(1.0)	(4.4)	(0.4)	(1.3)	(0.9)	1.1	(4.4)	1.6
Cash flows used by investing activities	(202.9)	(83.7)	(85.8)	(93.0)	(41.8)	(96.1)	(42.5)	(60.7)

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Consolidated Statements of Cash Flows (continued)

Years ended December 31 (In millions of dollars)	2008	2007	2006	2005	2004	2003	2002	2001
Financing								
Special distribution	–	–	–	–	–	–	–	(1,490.3)
Dividends paid	–	–	–	–	–	–	–	(37.2)
Repayment of revolving operating loan	(47.1)	–	–	–	–	–	–	–
Increase (decrease) in revolving loan and loan payable	60.1	47.0	(5.5)	6.4	(12.5)	(105.7)	119.1	–
Issue of long-term debt	–	–	–	–	333.1	212.7	–	768.7
Repayment of long-term debt	–	–	–	–	(266.1)	–	(386.7)	(240.9)
Premium and expenses on repayment of long-term debt	–	–	–	–	(15.0)	–	–	–
Increase (decrease) in other long-term debt	3.6	3.6	(0.4)	(0.2)	(0.3)	(0.3)	6.1	–
Issue of shares, net of share issue costs	121.1	0.3	–	–	–	(0.1)	208.1	–
Increase (decrease) in other long-term obligations	–	–	–	–	–	(15.7)	3.4	–
Deferred financing costs	(5.5)	–	–	0.1	(6.2)	(5.6)	–	(30.7)
Cash flows provided (used) by financing activities	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	5.0	(35.5)	35.5	(26.0)	26.0	–	(104.8)	(824.9)
Cash and cash equivalents, beginning of year	[illegible]	35.5	–	26.0	–	–	104.8	929.7
Cash and cash equivalents, end of year	$ 5.0	$ –	$ 35.5	$ –	$ 26.0	$ –	$ –	$ 104.8

This is Exhibit "B" referred to in the affidavit of Deborah Hamann-Trou sworn before me at Vancouver this 17th day of June, 2012.

A Commissioner for taking Affidavits
for British Columbia

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

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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

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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.

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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: Number of shares	Equity attributable to the Company: Common stock: $	Equity attributable to the Company: Additional paid-in capital	Equity attributable to the Company: Retained earnings (deficit)	Equity attributable to the Company: Accumulated other comprehensive income (loss)	Non-controlling interest (deficit)	Total
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.

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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.

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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.

NOTES TO 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.

(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.

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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.

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

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.

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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.

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

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.

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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

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

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

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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.

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

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

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.

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

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)

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

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)	13.6	–	–	(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.

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

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.

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

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.

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

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

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

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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

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

(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".

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

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.

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

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

As at December 31, 2009	Currency and notional amount	Change in rate or price	Effect from increase in rate or price: Net earnings (loss)	Effect from increase in rate or price: Other comprehensive income	Effect from decrease in rate or price: Net earnings (loss)	Effect from decrease in rate or price: 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				Forward contracts	
	Purchased US$ put		Sold US$ call			
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).

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

(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).

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
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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

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

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)

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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

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

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

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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)

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

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

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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

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

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)

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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

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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

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

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

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

(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)

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

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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.

This is Exhibit "C" referred to in the affidavit of Deborah Hamann-Trou sworn before me at Vancouver this 17th day of June, 2012.

A Commissioner for taking Affidavits for British Columbia

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 includes 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, 2010. 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, 2010, 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 four 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.

Kevin J. Clarke
President and
Chief Executive Officer

Brian Baarda
Vice-President, Finance
and Chief Financial Officer

Vancouver, Canada
March 2, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Catalyst Paper Corporation

We have audited the accompanying consolidated balance sheets of Catalyst Paper Corporation ("the company") as at December 31, 2010 and 2009 and the related 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, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and 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 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010 in conformity with U.S. generally accepted accounting principles.

As discussed in note 2(h) to the financial statements, the company has elected to change its method of accounting for the classification of certain foreign exchange gains and losses.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 2, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Chartered Accountants
Vancouver, Canada

March 2, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Catalyst Paper Corporation

We have audited Catalyst Paper Corporation ("the company")'s internal control over financial reporting as of December 31, 2010, 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 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, 2010, 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 audited, in accordance with Canadian generally accepted auditing standards and with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2010 and 2009, and the related 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, 2010, and our report dated March 2, 2011 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants
Vancouver, Canada

March 2, 2011

CONSOLIDATED BALANCE SHEETS

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

	2010	2009
Assets	[redacted]	
Current assets	[redacted]	
Cash and cash equivalents	[redacted]	$ 83.1
Accounts receivable (note 8)	[redacted]	101.5
Inventories (note 9)	[redacted]	178.3
Prepaids and other (note 10)	[redacted]	25.2
	[redacted]	388.1
Property, plant and equipment (note 11)	[redacted]	1,664.7
Other assets (note 12)	[redacted]	38.0
	[redacted]	$ 2,090.8
Liabilities	[redacted]	
Current liabilities	[redacted]	
Accounts payable and accrued liabilities (note 13)	[redacted]	$ 173.3
Current portion of long-term debt (note 14)	[redacted]	1.0
	[redacted]	174.3
Long-term debt (note 14)	[redacted]	774.6
Employee future benefits (note 15)	[redacted]	294.6
Other long-term obligations (note 16)	[redacted]	13.4
Future income taxes (note 17)	[redacted]	22.8
Deferred credits (note 18)	[redacted]	15.5
	[redacted]	1,295.2
Equity	[redacted]	
Shareholders' equity	[redacted]	
Common stock: no par value; unlimited shares authorized; issued and outstanding: 381,753,490 shares (December 31, 2009 – 381,753,490 shares)	[redacted]	1,035.0
Preferred stock: par value determined at time of issue; authorized 100,000,000 shares; issued and outstanding: nil shares	[redacted]	–
Additional paid-in capital	[redacted]	16.4
Deficit	[redacted]	(185.1)
Accumulated other comprehensive loss (note 19)	[redacted]	(52.7)
	[redacted]	813.6
Non-controlling interest (deficit) (note 6)	[redacted]	(18.0)
	[redacted]	795.6
	[redacted]	$ 2,090.8

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:

Kevin J. Clarke	**Thomas S. Chambers**
Director	Director

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

Years ended December 31,
(In millions of Canadian dollars, except where otherwise stated)

	2010	2009	2008
Sales	[redacted]	$ 1,223.5	$ 1,866.7
Operating expenses			
Cost of sales, excluding depreciation and amortization	[redacted]	1,037.6	1,611.8
Depreciation and amortization	[redacted]	146.6	165.8
Selling, general and administrative	[redacted]	44.8	46.9
Restructuring (note 20)	[redacted]	17.9	30.1
Impairment and other closure costs (note 5)	[redacted]	17.4	151.0
	[redacted]	1,264.3	2,005.6
Operating earnings (loss)	[redacted]	(40.8)	(138.9)
Interest expense, net (note 21)	[redacted]	(69.3)	(75.0)
Gain on cancellation of long-term debt (note 14)	[redacted]	30.7	–
Foreign exchange gain (loss) on long-term debt	[redacted]	75.3	(82.2)
Other expense, net (note 22)	[redacted]	(29.1)	(13.6)
Earnings (loss) before income taxes	[redacted]	(33.2)	(309.7)
Income tax recovery (note 17)	[redacted]	(27.6)	(90.7)
Net earnings (loss)	[redacted]	(5.6)	(219.0)
Net (earnings) loss attributable to non-controlling interest (note 6)	[redacted]	1.2	(0.8)
Net earnings (loss) attributable to the company	[redacted]	$ (4.4)	$ (219.8)
Basic and diluted net earnings (loss) per share attributable to the company's common shareholders (note 23) (in dollars)	[redacted]	$ (0.01)	$ (0.65)
Weighted average number of the company's common shares outstanding (in millions)	[redacted]	381.8	336.1

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)	2010	2009	2008
Net earnings (loss)	[redacted]	$ (5.6)	$ (219.0)
Other comprehensive income (loss), net of tax (expense) recovery:	[redacted]		
Employee future benefits liability adjustment, net of taxes of ($3.9) million (2009 – $9.9 million; 2008 – ($8.1) million)	[redacted]	(26.2)	22.8
Reclassification of amortization of employee future benefits, net of taxes of ($1.1) million (2009 – ($2.5) million; 2008 – ($3.6) million)	[redacted]	6.8	10.3
Unrealized net gain (loss) on cash flow revenue hedges, net of taxes of ($1.6) million (2009 – ($6.0) million; 2008 – $11.1 million)	[redacted]	14.5	(25.0)
Reclassification of net (gain) loss on cash flow revenue hedges, net of taxes of $4.2 million (2009 – ($2.1) million; 2008 – $0.1 million)	[redacted]	4.8	(0.2)
Foreign currency translation adjustments, net of related hedging activities, net of taxes of ($0.9) million (2009 – ($4.4) million; 2008 – $4.6 million)	[redacted]	(5.6)	6.7
Unrealized gain (loss) on interest rate hedges, net of taxes of ($0.1) million (2009 – $0.4 million)	[redacted]	(1.2)	–
Other comprehensive income (loss), net of taxes	[redacted]	(6.9)	14.6
Total comprehensive income (loss)	[redacted]	(12.5)	(204.4)
Comprehensive (income) loss attributable to non-controlling interest:	[redacted]		
Net (earnings) loss	[redacted]	1.2	(0.8)
Other comprehensive (income) loss, net of taxes of $nil (2009 – ($0.2) million; 2008 – nil)	[redacted]	0.6	–
Comprehensive (income) loss attributable to non-controlling interest	[redacted]	1.8	(0.8)
Comprehensive income (loss) attributable to the company	[redacted]	$ (10.7)	$ (205.2)

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: Number of shares	$	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Non-controlling interest (deficit)	Total
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 tax	–	–	–	–	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 tax	–	–	–	–	(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
Stock option compensation expense	[redacted]						
Net earnings (loss)							
Distributions to non-controlling interest							
Other comprehensive income (loss), net of tax							
Balance as at December 31, 2010							

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)	2010	2009	2008
Cash flows provided (used) by:	[redacted]		
Operations	[redacted]		
Net earnings (loss)	[redacted]	$ (5.6)	$ (219.0)
Items not requiring (providing) cash	[redacted]		
Depreciation and amortization	[redacted]	146.6	165.8
Impairment and other closure costs (note 5)	[redacted]	17.4	151.0
Future income taxes (note 17)	[redacted]	(26.6)	(92.4)
Foreign exchange loss (gain) on long-term debt	[redacted]	(75.3)	82.2
Gain on cancellation of long-term debt (note 14)	[redacted]	(30.7)	–
Employee future benefits, expense over (under) cash contributions	[redacted]	4.3	2.9
Decrease in other long-term obligations	[redacted]	(0.5)	(5.1)
Loss (gain) on disposal of property, plant and equipment	[redacted]	3.9	(0.4)
Other	[redacted]	4.6	(13.5)
Changes in non-cash working capital	[redacted]		
Accounts receivable	[redacted]	120.2	(7.0)
Inventories	[redacted]	32.9	27.3
Prepaids and other	[redacted]	7.6	8.1
Accounts payable and accrued liabilities	[redacted]	(95.2)	(21.8)
Cash flows provided (used) by operations	[redacted]	103.6	78.1
Investing	[redacted]		
Acquisition of Snowflake newsprint mill (note 7)	[redacted]	–	(172.2)
Additions to property, plant and equipment	[redacted]	(11.5)	(41.9)
Proceeds from sale of property, plant and equipment	[redacted]	4.5	2.2
Proceeds from termination of interest rate swaps	[redacted]	–	7.6
Decrease (increase) in other assets	[redacted]	4.1	(1.0)
Cash flows used by investing activities	[redacted]	(2.9)	(205.3)
Financing	[redacted]		
Issue of shares, net of share issue costs (note 7)	[redacted]	–	121.1
Increase (decrease) in revolving loan and loan payable	[redacted]	(45.6)	60.1
Repayment of revolving operating loan	[redacted]	–	(47.1)
Proceeds on issuance of Class B senior secured notes (note 14)	[redacted]	–	–
Note exchange costs (note 14)	[redacted]	(2.2)	–
Deferred financing costs (note 14)	[redacted]	(0.9)	(5.5)
Repayment of non-recourse long-term debt	[redacted]	(75.7)	–
Proceeds from non-recourse long-term debt	[redacted]	95.0	–
Proceeds on termination of debt foreign currency contracts	[redacted]	34.7	–
Settlement on purchase of senior notes (note 14)	[redacted]	(26.9)	–
Increase (decrease) in other long-term debt	[redacted]	(1.0)	3.6
Cash flows provided (used) by financing activities	[redacted]	(22.6)	132.2
Cash and cash equivalents, increase in the year	[redacted]	78.1	5.0
Cash and cash equivalents, beginning of year	[redacted]	5.0	–
Cash and cash equivalents, end of year	[redacted]	$ 83.1	$ 5.0
Supplemental disclosures:	[redacted]		
Income taxes paid	[redacted]	$ 0.5	$ 0.8
Net interest paid	[redacted]	66.5	74.4
Non-cash exchange of 8.625% senior notes	[redacted]	–	–
Non-cash issuance of 11.0% senior notes	[redacted]	–	–
Non-cash difference in carrying value of senior notes on modification	[redacted]	–	–

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

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CONSOLIDATED BUSINESS SEGMENTS

Year ended December 31, 2010 (In millions of Canadian dollars)	Specialty printing papers	Newsprint	Pulp	Corporate adjustments	Consolidated
Sales to external customers	[redacted]				
Inter-segment sales					
Depreciation and amortization					
Restructuring (note 20)					
Impairment and other closure costs (note 5)					
Operating earnings (loss)					
Total assets					
Additions to property, plant and equipment					

Year ended December 31, 2009 (In millions of Canadian dollars)	Specialty printing papers	Newsprint	Pulp	Corporate adjustments	Consolidated
Sales to external customers	$ 832.3	$ 320.6	$ 70.6	$ –	$ 1,223.5
Inter-segment sales	–	–	13.4	(13.4)	–
Depreciation and amortization	93.8	44.5	8.3	–	146.6
Restructuring (note 20)	11.7	3.0	3.2	–	17.9
Impairment (note 5)	–	17.4	–	–	17.4
Operating earnings (loss)	41.1	(70.3)	(11.6)	–	(40.8)
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	$ 1,011.9	$ 465.8	$ 389.0	$ –	$ 1,866.7
Inter-segment sales	–	–	36.8	(36.8)	–
Depreciation and amortization	100.6	37.3	27.9	–	165.8
Restructuring (note 20)	10.6	4.1	15.4	–	30.1
Impairment (note 5)	11.9	2.4	136.7	–	151.0
Operating earnings (loss)	39.5	6.0	(184.4)	–	(138.9)
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

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

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CONSOLIDATED GEOGRAPHIC BUSINESS SEGMENTS

Year ended December 31, 2010 (In millions of Canadian dollars)	Specialty printing papers	Newsprint	Pulp	Total
Sales by shipment destination:				
Canada	[redacted]	[redacted]	[redacted]	[redacted]
United States	[redacted]	[redacted]	[redacted]	[redacted]
Asia and Australasia	[redacted]	[redacted]	[redacted]	[redacted]
Latin America	[redacted]	[redacted]	[redacted]	[redacted]
Europe and other	[redacted]	[redacted]	[redacted]	[redacted]
	[redacted]	[redacted]	[redacted]	[redacted]

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	656.6	189.9	3.1	849.6
Asia and Australasia	26.9	40.8	49.0	116.7
Latin America	37.7	48.8	0.9	87.4
Europe and other	4.2	0.8	17.3	22.3
	$ 832.3	$ 320.6	$ 70.6	$ 1,223.5

Year ended December 31, 2009 (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	774.3	262.7	50.8	1,087.8
Asia and Australasia	28.5	72.0	194.3	294.8
Latin America	70.7	70.9	29.5	171.1
Europe and other	0.4	1.4	101.8	103.6
	$ 1,011.9	$ 465.8	$ 389.0	$ 1,866.7

As at December 31, (In millions of Canadian dollars)	2010	2009
Property, plant and equipment by geographic location:		
Canada	[redacted]	$ 1,492.8
United States	[redacted]	171.9
	[redacted]	$ 1,664.7

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 owns and operates four manufacturing facilities, three of which are located in the province of British Columbia ("B.C."), Canada and one in Arizona, U.S.A. Two other facilities, including a paper recycling facility, were permanently shut down during 2010 (note 5). Inter-segment sales consist of pulp transfers at cost up to December 31, 2009, and at market prices thereafter. The company has not restated its comparative numbers for this change in policy as the change is not material to the comparative numbers. However, this change could be material in future periods if pulp market prices increase or average costs decrease.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the company are prepared in accordance with United States ("U.S.") generally accepted accounting principles ("U.S. GAAP"). The U.S. GAAP financial statements differ in certain respects from those that would be prepared in accordance with generally accepted accounting principles ("Canadian GAAP"). The company has 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.*

(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 has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and has an obligation to absorb losses and receive benefits of that VIE.

(c) Use of Estimates

The consolidated financial statements have been prepared in conformity with U.S. GAAP, which requires 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

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 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. 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 and the Canadian paper industry in general have been adversely affected by the economic downturn in the United States over the past two years and the trend away from certain paper products to electronic media. The result has been overcapacity in the industry resulting in lower prices, higher costs due to production curtailments and a strong Canadian dollar which ultimately lowers revenues to the company. The company has permanently shut capacity in order to balance supply with demand and has worked with key stakeholders including suppliers, unions and municipalities to lower costs. The ability of the company to continue as a going concern in the long term will be dependent on the company's ability to achieve profitable operations that are sustainable and on the company's ability to renew long term debt and credit facilities as they become due. Based on management's future projections, the company expects its operations to be profitable in the future. However, these projections include assumptions for pulp and paper demand and prices, the Canadian dollar, input costs and other economic factors, many of which are beyond the company's control.

(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 ("US$"). 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 the 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 ("CDN$") 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.

Effective January 1, 2010, the company changed its policy on the classification of foreign exchange gains and losses on the ineffective portion of its U.S. dollar revenue risk management instruments, on the portion that is excluded from the assessment of hedge effectiveness, and on the translation of working capital balances denominated in foreign currencies. The respective foreign exchange gains and losses previously recognized in *Sales* are now recognized in *Other expense, net.* In addition, the company also changed its policy on the classification of changes in the fair value of all commodity swap agreements not designated as hedges for accounting purposes that were previously recognized in *Sales* and *Cost of sales, excluding depreciation and amortization.* The changes in the fair value related to these instruments are now recognized in *Other expense, net.* The new policies adopted are considered preferable as they increase the transparency of the economic hedging activity. These changes were applied retrospectively. For the year ended December 31, 2009, the above changes resulted in an increase of $21.8 million to *Sales* and $2.1 million to *Cost of sales, excluding depreciation and amortization,* with an offsetting increase of $19.7 million to *Other expense, net.*

Effective April 1, 2010, the company no longer designates its U.S. dollar revenue risk management instruments as cash flow hedges for accounting purposes. The effective portion of gains or losses accumulated as at March 31, 2010 on its previously designated U.S. dollar revenue risk management instruments are continuing to be recorded in the same income statement line items as the hedged item in *Sales.* 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. Prior to April 1, 2010, the company designated the hedge relationship and formally documented, at its inception, the particular risk management objective and strategy, the specific asset, liability or cash flow being hedged, as well as how effectiveness was assessed. Risk management strategies and relationships were assessed on an ongoing basis to ensure each derivative instrument was 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.

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

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.

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 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 was charged on manufacturing machinery and equipment prior to September 30, 2010. During the fourth quarter of 2010, the company re-evaluated its estimate of the effect of depreciation during major production interruption on assets with lives greater than five years. The company concluded that, due to changing economic factors and conditions, it is more likely that these assets continue to depreciate fully when not in use. The company considers this a change in estimate, which has been adopted prospectively in the fourth quarter of 2010.

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 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.

(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 expected average remaining service lifetime ("EARSL") of employees who are active 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 remaining life expectancy of the former employees (amortized over five 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 EARSL of the active employees who are active as of the date such amounts are 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 five 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 to the presentation adopted for the current year.

3. RECENTLY IMPLEMENTED ACCOUNTING STANDARDS

In June 2009, the Financial Accounting Standards Board ("FASB") further amended the Consolidation Topic of the Accounting Standards Codification, 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 are no longer 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 has assessed the impact of these amendments and has determined that these amendments have no impact on the company's consolidated financial statements or disclosures as the company continues to be the primary beneficiary in PREI.

In February 2010, the FASB amended its guidance on subsequent events contained in the Accounting Standards Codification. The amendments eliminate the requirement to disclose the date through which an entity has evaluated subsequent events. The company adopted the amended guidance in its consolidated financial statement disclosures for its interim financial statements for periods beginning on or after January 1, 2010.

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

4. CHANGES IN FUTURE ACCOUNTING STANDARDS

There were no new pronouncements issued by the FASB that may materially impact the company's consolidated financial statements for future periods.

5. MEASUREMENT UNCERTAINTY – IMPAIRMENT OF LONG-LIVED ASSETS

The company reviews its 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 76% of total assets as at December 31, 2010. 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.

2010

As a result of the decision to permanently close the company's Elk Falls paper mill and paper recycling operation in September 2010, the company recorded a $304.2 million charge for related impairment, severances and other closure costs. The Elk Falls mill had been indefinitely curtailed since February 2009 and the paper recycling facility was indefinitely idled in February 2010.

The following table provides the components of the impairment, severances and other closure costs:

Property, plant and equipment	[redacted]
Operating and maintenance supplies and spare parts inventory (note 9)	[redacted]
	[redacted]
Less: impairment previously recorded on paper assets (prior to announcement of permanent closure)	[redacted]
Severances	[redacted]
Other closure costs – operating lease at paper recycling operation	[redacted]
Total	[redacted]
Classification in consolidated statement of earnings (loss):	
Impairment and other closure costs	[redacted]
Restructuring	[redacted]
	[redacted]

During the fourth quarter of 2010, the company assessed whether there were any impairment indicators present that would require the company to perform a detailed recovery test with respect to its pulp and paper assets. The company determined that there were no new impairment indicators at the end of 2010 compared to the impairment indicators that existed at the end of 2009. As a result, the company reviewed its detailed recovery test performed at the end of 2009 and determined that the cash flow analysis performed at that time on the company's assets still in operation at the end of 2010 (excluding Elk Falls and the paper recycling operation shut down in 2010) indicated a significant excess of undiscounted cash flows over the net book value of the assets. In addition, the company reviewed the major assumptions used in the 2009 detailed recovery test and determined that, on an overall basis, the assumptions used were more conservative than the assumptions that would be used in a new impairment test. On that basis, the company determined that a new detailed recovery test was not required for 2010. The assumptions used in the 2009 impairment analysis are detailed below.

2009

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) of the impairment test on its pulp and paper 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 were 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 2012 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.

In anticipation of declining North American newsprint demand, the company had accelerated depreciation on certain paper machines over the past few years and in the fourth quarter of 2009, the company recorded an impairment charge of $17.4 million on certain of its paper machines to reflect the excess capacity in a number of its machines pursuant to high levels of indefinite curtailment.

2008

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 were no longer in use or where the net realizable value had decreased due to the current weak economic environment.

6. VARIABLE INTEREST ENTITIES

The company has a 50.001% 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 83 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.

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

Condensed financial information with respect to PREI is as follows:

Years ended December 31,	2010	2009	2008
Condensed statements of earnings (loss)	[redacted]		
Sales – affiliate [1]	[redacted]	$ 16.7	$ 18.6
Cost of sales, excluding depreciation and amortization	[redacted]	6.3	4.9
Depreciation and amortization	[redacted]	3.2	3.2
	[redacted]	9.5	8.1
Operating earnings	[redacted]	7.2	10.5
Interest expense	[redacted]	(9.0)	(7.7)
Interest expense – affiliate [1]	[redacted]	(2.9)	(2.7)
Other expense, net	[redacted]	0.1	0.5
Income tax recovery	[redacted]	2.2	1.0
Net earnings (loss)	[redacted]	(2.4)	1.6
Other comprehensive income (loss)	[redacted]	(1.2)	–
Total comprehensive income (loss) [2]	[redacted]	$ (3.6)	$ 1.6

As at December 31,	2010	2009
Condensed balance sheets	[redacted]	
Current assets	[redacted]	
Cash and cash equivalents	[redacted]	$ 5.5
Other	[redacted]	2.0
Property, plant and equipment	[redacted]	112.8
	[redacted]	$ 120.3
Current liabilities	[redacted]	
Accounts payable and accrued liabilities	[redacted]	$ 5.5
Long-term debt (note 14)	[redacted]	112.9
Long-term debt – affiliate [1]	[redacted]	20.8
Future income taxes	[redacted]	17.1
Deficit [2]	[redacted]	(36.0)
	[redacted]	$ 120.3

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, 2010, the principal amount of the mortgage was $6.4 million (2009 – $7.9 million). This agreement does not increase the company's liability beyond the obligation under the building lease.

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

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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 was 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 the 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.

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:

	2010	2009
Trade receivables	[redacted]	$ 98.7
Less: allowance for doubtful accounts	[redacted]	(3.7)
	[redacted]	95.0
Sales taxes receivable	[redacted]	2.3
Other receivables	[redacted]	4.2
	[redacted]	$ 101.5

9. INVENTORIES

The components of inventories at December 31 were as follows:

	2010	2009
Finished goods		
Specialty printing papers	[redacted]	$ 19.7
Newsprint	[redacted]	11.5
Pulp	[redacted]	6.4
Total finished goods	[redacted]	37.6
Work-in-progress	[redacted]	0.5
Raw materials – wood chips, pulp logs and other	[redacted]	36.4
Operating and maintenance supplies and spare parts (note 5)	[redacted]	103.8
	[redacted]	$ 178.3

At December 31, 2010, the company had applied write-downs of $0.2 million to finished goods inventory (2009 – $1.7 million) and $0.4 million to raw materials inventory (2009 – $3.6 million).

10. PREPAIDS AND OTHER

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

	2010	2009
Property taxes, insurance and licences	[redacted]	$ 1.9
Derivative financial instruments	[redacted]	15.9
Future income tax assets (note 17)	[redacted]	4.8
Other	[redacted]	2.6
	[redacted]	$ 25.2

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

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11. PROPERTY, PLANT AND EQUIPMENT

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

2010	Cost	Accumulated depreciation, amortization and impairment	Net book value
Buildings and land	[redacted]	[redacted]	[redacted]
Specialty printing papers and newsprint	[redacted]	[redacted]	[redacted]
Pulp	[redacted]	[redacted]	[redacted]
Machinery and equipment	[redacted]	[redacted]	[redacted]
Specialty printing papers and newsprint	[redacted]	[redacted]	[redacted]
Pulp	[redacted]	[redacted]	[redacted]
	[redacted]	[redacted]	[redacted]

2009	Cost	Accumulated depreciation, amortization and impairment	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

At December 31, 2010, a net carrying amount of $10.4 million (2009 – $11.3 million) included in machinery and equipment is held under capital leases, $15.1 million for cost (2009 – $15.2 million) and $4.7 million for accumulated depreciation and amortization (2009 – $3.9 million).

Interest capitalized in connection with capital projects was nil for both 2010 and 2009.

During 2010, the company recorded a $260.5 million impairment charge on the closure of its Elk Falls operations and Coquitlam paper recycling facility, net of $12.0 million in related impairment charges recorded in 2009 (note 5). In 2009, the company recorded a $17.4 million 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.

12. OTHER ASSETS

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

	2010	2009
Deferred financing costs	[redacted]	$ 10.7
Deferred charges and other	[redacted]	9.6
Derivative financial instruments	[redacted]	3.1
Accrued benefit asset – pension plan (note 15)	[redacted]	0.2
Future income tax assets (note 17)	[redacted]	14.4
	[redacted]	$ 38.0

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:

	2010	2009
Trade payables	[redacted]	$ 83.2
Accrued payroll and related liabilities	[redacted]	34.7
Accrued interest	[redacted]	10.8
Accrued benefit obligation – pension plan (note 15)	[redacted]	6.7
Accrued benefit obligation – other employee future benefit plans (note 15)	[redacted]	7.3
Property taxes in arrears and related penalties	[redacted]	15.1
Restructuring (note 20)	[redacted]	5.2
Lease obligation – paper recycling – current portion (note 5)	[redacted]	–
Payables related to capital projects	[redacted]	2.3
Other	[redacted]	8.0
	[redacted]	$ 173.3

14. LONG-TERM DEBT

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

	2010	2009
Recourse	[redacted]	
Senior notes, 8.625% due June 2011 (US$26.0 million; December 31, 2009 – US$354.2 million)	[redacted]	$ 371.6
Senior notes, 7.375% due March 2014 (US$250.0 million; December 31, 2009 – US$250.0 million)	[redacted]	265.4
Senior secured notes, 11.0% due December 2016 (US$280.4 million)	[redacted]	–
Modification – difference in carrying value of 8.625% and 11.0% senior secured notes (US$38.3 million) on exchange	[redacted]	–
Class B senior secured notes, 11.0% due December 2016 (US$110.0 million)	[redacted]	–
	[redacted]	637.0
Revolving asset-based loan facility of up to $330.0 million due August 2013	[redacted]	14.5
Capital lease obligations	[redacted]	11.2
	[redacted]	662.7
Non-recourse (note 6)	[redacted]	
First mortgage bonds, 6.447% due July 2016	[redacted]	94.1
Subordinated promissory notes	[redacted]	18.8
	[redacted]	112.9
Total debt	[redacted]	775.6
Less: current portion	[redacted]	(1.0)
Total long-term debt	[redacted]	$ 774.6

On March 10, 2010, the company issued US$280.4 million of new 11.0% senior secured notes, due December 2016 ("2016 Class A Notes") in exchange for US$318.7 million of its 8.625% senior unsecured notes due June 2011 ("2011 Notes"). The company issued US$880.0 in principal amount of the 2016 Class A Notes for each US$1,000 in principal amount of the 2011 Notes exchanged. As the cash flows of the principal and interest on a discounted basis over the life of the outstanding 2016 Class A Notes issued did not differ by more than 10% compared to the cash flows of the principal and interest on a discounted basis over the life of the 2011 Notes, the 2016 Class A Notes were accounted for as a modification of the 2011 Notes. Accordingly, the 2016 Class A Notes were recorded at the carrying value of the 2011 Notes exchanged for US$318.7 million. The excess of US$38.3 million of the carrying value of the 2011 Notes exchanged over the principal amount of the 2016 Class A Notes issued remained as part of the carrying value of the debt on the balance sheet and is being amortized as a reduction of interest expense, under the effective interest rate method, until the maturity of the 2016 Class A Notes. As the exchange was accounted for as a modification, the legal and other non-finance expenses of $10.5 million associated with the exchange were expensed, of which $8.3 million was expensed in the year ended December 31, 2010 (2009 – $2.2 million).

In September 2010, the company purchased US$9.5 million of its 2011 Notes, for cash consideration of US$8.9 million and recorded a gain of $0.6 million on the cancellation of this debt. As of December 31, 2010, US$26.0 million of 2011 Notes remain outstanding. In 2009, the company purchased and cancelled US$45.8 million of its 2011 Notes, for cash consideration of $26.9 million and recorded a net gain of $30.7 million.

On May 19, 2010, the company issued US$110.0 million of Class B 11.0% senior secured notes due December 15, 2016 ("2016 Class B Notes") at 86% of the principal amount in a private placement generating net proceeds of $93.9 million, after financing costs of $4.5 million.

The indentures governing the company's senior notes contain customary restrictive covenants, including restrictions on incurring additional indebtedness, certain restricted 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. Pursuant to a consent solicitation conducted concurrently with the exchange offer, substantially all of these restrictive covenants were eliminated with respect to the 2011 Notes that remain outstanding after the exchange, although certain covenants, including restrictions on the creation of liens and certain assets sales, remain applicable to the 2011 Notes. Collateral provided on the 2016 Class A Notes and 2016 Class B Notes (collectively "2016 Notes") consists of a first charge on substantially all of the assets of the company, other than the ABL First Charge Collateral as described below (the "2016 Notes First Charge Collateral") and a second charge on the ABL First Charge Collateral. The indentures governing the 7.375% senior notes, due March 2014, ("2014 Notes") and the 2016 Notes limit the ability of the company to incur debt, other than *permitted debt*, while the company cannot meet a fixed charge coverage ratio of 2.0:1. The company's fixed charge coverage ratio under these indentures, calculated on a 12-month trailing average, was 0.4:1 at December 31, 2010 (December 31, 2009 – 1.5:1).

Under the indentures for the 2014 Notes and 2016 Notes, *permitted debt* includes (a) the company's existing 2011 and 2014 Notes; (b) a credit facility basket in an amount equal to the greater of (i) $725.0 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 $375.0 million, against which the company's utilization of the $330.0 million ABL Facility applies to this basket under both the 2014 Note Indenture and 2016 Note Indentures, the 2016 Notes apply to this basket under the 2014 Note Indenture and the 2016 Class B Notes reduce this basket under the 2016 Note Indentures; (c) purchase money debt and capitalized lease obligations in an amount equal to 7.5% of the company's consolidated tangible assets; (d) a $100.0 million general basket; and (e) a $5.0 million basket for accommodation guarantees, trade or standby letters of credit, performance bonds, bankers' acceptances and surety bonds. In addition, the indenture governing the 2016 Notes includes a limitation of US$411.7 million on the amount of 2016 Notes and additional debt that can be secured on a pari passu basis with the 2016 Notes, and restricts the ability of the company to repurchase the 2014 Notes prior to their maturity unless, among other things, the company has available liquidity under the ABL Facility and cash on hand of at least $100.0 million. The company cannot make any restricted payments, including paying any dividends, except to the extent the balance in its restricted payments baskets is positive. The restricted payments baskets under the 2014 Notes and 2016 Notes were negative $302.2 million and negative $86.2 million, respectively, as at December 31, 2010, as a result of accumulated losses in recent years (December 31, 2009 – negative $176.0 million and $nil, respectively).

The security for the ABL Facility and the related derivatives facilities consists of a first charge on the accounts receivable, inventory and cash of the company and on the Snowflake mill property, plant and equipment and related rail operation (collectively, the "ABL First Charge Collateral") and a second charge on the 2016 Notes First Charge Collateral. Availability under the ABL Facility is determined by a borrowing base calculated primarily on eligible accounts receivable, eligible inventory and a value ascribed to the Snowflake mill fixed assets, less certain reserves. Effective October 7, 2010, the covenant that no more than US$17.7 million of the 2011 Notes can remain outstanding by March 15, 2011 was replaced by an additional reserve from the borrowing base for the amount of the 2011 Notes outstanding in excess of US$17.7 million. The borrowing base at December 31, 2010 includes a reserve of $4.4 million for unpaid property taxes and associated penalties and a reserve of $8.3 million for the 8.625% notes representing the 2011 Notes outstanding in excess of US$17.7 million. A reserve may also be imposed for vacation pay obligations, which as at December 31, 2010 were $21.6 million, if Excess Availability (as defined in the ABL Facility) is below $75.0 million. Excess Availability was $129.0 million at December 31, 2010. As at December 31, 2010, the borrowing base under the ABL Facility was $152.4 million. After deducting outstanding drawings of $nil, outstanding letters of credit of $23.4 million, and the $35.0 million minimum Excess Availability covenant, $94.0 million was available to be drawn by the company under the ABL Facility. The company also had an additional $95.4 million of cash on hand at December 31, 2010.

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

The financial covenants applicable under the ABL Credit Agreement must be maintained based upon the company's financial results prepared under Canadian GAAP and include covenants to (a) maintain shareholders' equity above $346.2 million as at December 31, 2010; (b) maintain Excess Availability of not less than $35.0 million; and (c) not make capital expenditures in any fiscal year in an amount which exceeds 120% of the budgeted capital expenditures for such fiscal year. 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, 2010, as calculated under the ABL Facility under Canadian GAAP, shareholders' equity was $476.5 million (December 31, 2009 – $881.4 million).

The ABL Facility also 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 as well as restrictions on voluntary prepayments of certain debt, including the senior notes, unless Excess Availability of at least $65.0 million is maintained. 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, adverse judgments, seizures of property, material adverse change, auditors' going concern qualification, and change in control.

At December 31, 2010, the company was in compliance with its covenants under the ABL Facility and under each of the indentures governing its outstanding senior notes.

Non-recourse debt is debt owed by the company's subsidiary PREI. The company has a 50.001% interest in PREI, and consolidates 100% of it as PREI is a VIE in which the company is the primary beneficiary.

Scheduled total debt repayments	Recourse debt	Non-recourse debt (PREI)
2011	$ 26.9	$ –
2012	4.0	–
2013	3.8	–
2014	250.0	–
2015	–	–
Thereafter	388.3	113.8
	$ 673.0	$ 113.8

The company's long-term debt is recorded at amortized cost. The following table provides information about management's best estimate of the fair value of the company's debt:

	December 31, 2010		December 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value
Recourse	[redacted]	[redacted]	$ 662.7	$ 472.3
Non-recourse	[redacted]	[redacted]	112.9	113.8

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.

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

15. EMPLOYEE FUTURE BENEFITS

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 ceased to accrue benefits under the defined benefit segment of the plan and began 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. 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 company provides other benefit plans consisting of provincial medical plan premiums, extended health care and dental benefits to employees. In February 2010, the company announced changes to its benefit plans for current retirees which included the replacement of the current extended health benefits program with provision of the lower cost program available to employees in active employment. The reduction in the benefit obligation resulting from the plan changes of $21.3 million was recognized as a negative plan amendment during the year. The company also made the decision to permanently close Elk Falls mill during the year (note 5) and the related reduction in the benefit obligation from the plan curtailment amounting to $9.7 million was recognized with a corresponding increase to other comprehensive income.

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.

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 is as of December 31, 2010 (not completed at the financial statement release date).

Components of net periodic benefit cost recognized in the year

Pension benefit plans	2010	2009	2008
Defined benefit plan	[redacted]		
Service cost for the year		$ 3.3	$ 5.2
Interest cost		22.2	19.3
Expected return on assets		(15.4)	(19.3)
Recognition of restructuring program (note 20)		5.6	7.5
Amortization of unrecognized items:			
Actuarial (gains) losses		3.7	(0.2)
Prior service costs		0.5	5.1
Transition asset		0.3	–
		20.2	17.6
Defined contribution plan			
Service cost for the year		5.2	5.5
Multi-employer industry-wide pension plan service cost for the year		10.7	15.5
Net periodic benefit cost for pension benefit plans		$ 36.1	$ 38.6

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

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Other benefit plans	2010	2009	2008
Service cost for the year	[redacted]	$ 2.3	$ 4.6
Interest cost	[redacted]	11.2	11.5
Amortization of unrecognized items:	[redacted]		
Actuarial (gains) losses	[redacted]	(0.7)	1.8
Prior service credits	[redacted]	(0.2)	(0.2)
Net periodic benefit cost for other benefit plans	[redacted]	$ 12.6	$ 17.7

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	
	2010	2009	2010	2009
Change in benefit obligation	[redacted]		[redacted]	
Projected benefit obligation at beginning of year	[redacted]	$ 334.3	[redacted]	$ 163.7
Service cost for the year	[redacted]	3.3	[redacted]	2.3
Interest cost	[redacted]	22.2	[redacted]	11.2
Employee contributions	[redacted]	0.3	[redacted]	–
Transfers in from other plans	[redacted]	0.2	[redacted]	–
Benefit payments	[redacted]	(32.5)	[redacted]	(7.3)
Recognition of restructuring program (note 20)	[redacted]	5.6	[redacted]	–
Prior service (credits) costs	[redacted]	–	[redacted]	(17.2)
Curtailment gain recognized	[redacted]	(0.5)	[redacted]	–
Actuarial losses (gains) and other adjustments	[redacted]	27.8	[redacted]	36.6
Projected benefit obligation at end of year	[redacted]	$ 360.7	[redacted]	$ 189.3
Change in plan assets	[redacted]		[redacted]	
Fair value of defined benefit plan assets at beginning of year	[redacted]	$ 220.6	[redacted]	$ –
Actual return on plan assets	[redacted]	32.3	[redacted]	–
Employee contributions	[redacted]	0.3	[redacted]	–
Company contributions	[redacted]	21.4	[redacted]	7.3
Other	[redacted]	(0.5)	[redacted]	–
Benefit payments	[redacted]	(32.5)	[redacted]	(7.3)
Fair value of assets at end of year	[redacted]	$ 241.6	[redacted]	$ –

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

Reconciliation of funded status to amounts recognized in the consolidated balance sheets

	Pension benefit plans		Other benefit plans	
	2010	2009	2010	2009
Projected benefit obligation at end of year	[redacted]	$ 360.7	[redacted]	$ 189.3
Fair value of plan assets at end of year	[redacted]	241.6	[redacted]	–
Funded status	[redacted]	$ (119.1)	[redacted]	$ (189.3)

	Pension benefit plans		Other benefit plans	
	2010	2009	2010	2009
Other assets (note 12)	[redacted]	$ 0.2	[redacted]	$ –
Accounts payable and accrued liabilities (note 13)	[redacted]	(6.7)	[redacted]	(7.3)
Employee future benefits	[redacted]	(112.6)	[redacted]	(182.0)
	[redacted]	$ (119.1)	[redacted]	$ (189.3)

As at December 31, 2010, of the total funding deficit of $133.0 million (2009 – $119.1 million) in the company's various defined benefit pension plans, $68.3 million (2009 – $49.4 million) is related to funded defined benefit pension plans and $64.7 million (2009 – $69.7 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 $154.5 million at December 31, 2010 (2009 – $189.3 million) related to "pay-as-you-go" plans.

Amounts not yet recognized in net periodic benefit cost and included in accumulated other comprehensive income (loss)

	Pension benefit plans		Other benefit plans	
	2010	2009	2010	2009
Prior year service credits (costs)	[redacted]	$ (3.1)	[redacted]	$ 12.0
Accumulated gain (loss)	[redacted]	(60.1)	[redacted]	(9.7)
Accumulated other comprehensive income (loss)	[redacted]	$ (63.2)	[redacted]	$ 2.3

Amounts before taxes included in other comprehensive income (loss)

	Pension benefit plans		Other benefit plans	
	2010	2009	2010	2009
Amortization of employee future benefits	[redacted]	$ 10.1	[redacted]	$ (0.8)
Net gain (loss)	[redacted]	(16.2)	[redacted]	(19.9)
Net amount recognized in other comprehensive income (loss)	[redacted]	$ (6.1)	[redacted]	$ (20.7)

An estimated amount of $5.7 million of losses for pension plans and $3.3 million of gains for other benefit plans will be amortized from accumulated other comprehensive income (loss) to net periodic benefit cost in 2011.

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

Estimated Future Benefit Payments

Total cash payments for employee future benefits for the year ended December 31, 2010, consisting of cash contributed by the company to its funded pension plans, cash payments directly to beneficiaries for its unfunded benefit plans, cash contributed to its defined contribution plans and cash contributed to its multi-employer industry-wide plan, was $35.5 million (2009 – $44.6 million). During 2011, the company expects to contribute approximately $36.4 million to all of the above pension plans and approximately $7.1 million to its other benefit plans.

The following table presents estimated future benefit payments from the plans as of December 31, 2010. Benefit payments for other post-retirement benefits are presented net of retiree contributions.

	Pension benefit plans	Other benefit plans
2011	$ 41.3	$ 7.1
2012	30.2	7.5
2013	29.6	7.9
2014	29.4	8.3
2015	29.1	8.7
2016 - 2020	138.3	51.0

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,	2010	2009
Equity securities	61.9%	60.8%
Fixed income securities	38.1%	39.2%
Total	100.0%	100.0%

Fair Value of Plan Assets

The following tables present information about the fair value of pension and other benefit plan assets:

		Fair value hierarchy		
As at December 31, 2010	Total	Level 1	Level 2	Level 3
Asset category				
Cash and cash equivalents	$ 2.7	$ 2.7	$ –	$ –
Equity securities:				
Global equity pooled funds [1]	96.5	–	96.5	–
Canadian equity pooled funds [2]	50.1	–	50.1	–
U.S. equity pooled funds [3]	3.3	–	3.3	–
Balanced equity pooled funds [4]	0.5	–	0.5	–
Fixed income securities:				
Canadian long bond pooled funds [5]	45.3	–	45.3	–
Canadian bond pooled funds [5]	45.3	–	45.3	–
U.S. bond pooled funds [6]	2.1	–	2.1	–
Forward currency contracts [7]	0.6	–	0.6	–
Total	$ 246.4	$ 2.7	$ 243.7	$ –

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

		Fair value hierarchy		
As at December 31, 2009	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 (2009 – $2.5 million) of which is invested in pooled funds that primarily invest in equity securities of U.S. large-capitalization companies, and $0.8 million (2009 – $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 corporations 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 are recorded at carrying value which approximates fair value.

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 in which the fund has invested. 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.

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

Significant Assumptions

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

		2010		2009
Benefit obligations at December 31,				
Discount rate		[redacted]		6.00%
Rate of compensation increase		[redacted]		2.00%
Net benefit cost for year ended December 31,				
Discount rate		[redacted]		7.00%
Rate of compensation increase		[redacted]		2.50%
Expected rate of return on plan assets		[redacted]		7.00%
Assumed health care cost trend rate at December 31,				
Extended health benefits				
Initial health care cost trend rate		[redacted]		7.00%
Annual rate of decline in trend rate		[redacted]		0.50%
Ultimate health care cost trend rate		[redacted]		4.50%
Dental benefits				
Dental care cost trend rate		[redacted]		3.50%
Medical services plan benefits				
Premium trend rate	(in 2010 to 2012)	[redacted]	(in 2010 to 2012)	6.00%
	(thereafter)	[redacted]	(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, 2010 and December 31, 2009, the discount rates were based on AA corporate bond yields as of December 31, 2010 and December 31, 2009, 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 2010 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 2010 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.

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.

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

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 2010:

Other benefit plans	Increase	Decrease
Total of service and interest cost	[redacted]	$ (2.0)
Accrued benefit obligation at December 31		(15.4)

16. OTHER LONG-TERM OBLIGATIONS

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

	2010	2009
Restructuring (note 20)	[redacted]	$ 1.6
Environmental and remedial		7.6
Lease obligation – paper recycling – long term (note 5)		–
Other		4.2
		$ 13.4

17. INCOME TAXES

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

	2010	2009	2008
Canada	[redacted]	$ 1.2	$ (349.7)
United States		(22.8)	(11.7)
Other		(11.6)	51.7
Earnings (loss) before income taxes		$ (33.2)	$ (309.7)

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

The income tax recovery consists of:

	2010	2009	2008
Canada:	[redacted]		
Current	[redacted]	$ (0.2)	$ 0.3
Future	[redacted]	(17.4)	(91.8)
	[redacted]	(17.6)	(91.5)
United States:	[redacted]		
Current	[redacted]	(0.9)	1.3
Future	[redacted]	(9.2)	(0.6)
	[redacted]	(10.1)	0.7
Other:	[redacted]		
Current	[redacted]	0.1	0.1
Future	[redacted]	–	–
	[redacted]	0.1	0.1
Total:	[redacted]		
Current	[redacted]	(1.0)	1.7
Future	[redacted]	(26.6)	(92.4)
	[redacted]	$ (27.6)	$ (90.7)

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:

	2010		2009		2008	
Income tax recovery at Canadian statutory income tax rates	[redacted]	[redacted]	$ (9.9)	30.0%	$ (96.0)	31.0%
Increase (decrease) in income taxes for:						
Non-taxable income and expenses	[redacted]	[redacted]	(13.6)	40.9	13.0	(4.2)
Difference in foreign tax rate	[redacted]	[redacted]	(7.5)	22.6	(4.3)	1.4
Release of future income taxes related to reduction in corporate income tax rates	[redacted]	[redacted]	8.6	(25.9)	(5.8)	1.9
Change in the future income tax estimate	[redacted]	[redacted]	(4.5)	13.5	–	–
Change in valuation allowance	[redacted]	[redacted]	–	–	–	–
Adjustment to deferred credits	[redacted]	[redacted]	(2.7)	8.1	(2.7)	0.9
Other	[redacted]	[redacted]	2.0	(6.1)	5.1	(1.7)
Income tax recovery	[redacted]	[redacted]	$ (27.6)	83.1%	$ (90.7)	29.3%

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

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:

	2010	2009
Future income tax assets	[redacted]	
Non-capital losses and temporary differences related to working capital	[redacted]	$ 14.2
Employee future benefits	[redacted]	6.9
	[redacted]	21.1
Valuation allowance	[redacted]	(1.9)
	[redacted]	$ 19.2
Classification:	[redacted]	
Prepaids and other (note 10)	[redacted]	$ 4.8
Other assets (note 12)	[redacted]	14.4
	[redacted]	$ 19.2

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

	2010	2009
Future income tax liabilities	[redacted]	
Property, plant and equipment	[redacted]	$ 127.9
Non-capital loss carry-forwards	[redacted]	(59.7)
Employee future benefits	[redacted]	(71.8)
Other	[redacted]	23.6
	[redacted]	20.0
Valuation allowance	[redacted]	2.8
	[redacted]	$ 22.8

At December 31, 2010, the company has provided for a valuation allowance on its future tax assets of $103.0 million.

At December 31, 2010, the company had Canadian federal non-capital loss carry-forwards of $25.2 million, which expire during the period 2014 to 2030, and U.S. federal net operating loss carry-forwards of $101.7 million, which expire between 2011 and 2030. 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. During the year, management recorded a valuation allowance of $26.3 million in respect of its U.S. federal net operating losses.

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

Accounting for Uncertainty in Income Taxes

At December 31, 2010, the company had gross unrecognized tax benefits of $5.9 million (2009 – $11.6 million). If recognized, these tax benefits would favourably impact the company's effective tax rate.

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

	2010	2009
Unrecognized tax benefits, beginning of year	[redacted]	$ 11.7
Increases – tax positions taken in prior periods	[redacted]	2.7
Decreases – tax positions taken in prior periods	[redacted]	(2.7)
Current period tax positions	[redacted]	–
Settlements and lapse of statute of limitations	[redacted]	–
Decrease resulting from tax rate reduction	[redacted]	(0.1)
Unrecognized tax benefits, end of year	[redacted]	$ 11.6

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 2010. At December 31, 2010, 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 Canadian federal taxing authorities, 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-2007 tax years expired on September 15, 2010.

18. DEFERRED CREDITS

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

	2010	2009
Balance, beginning of year	[redacted]	$ 18.6
Adjustment related to utilization of acquired tax losses	[redacted]	(2.7)
Adjustment resulting from reduction in corporate income tax rates	[redacted]	(0.4)
Balance, end of year	[redacted]	$ 15.5

19. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	2010	2009
Unrecognized pension and other post-retirement benefit costs	[redacted]	$ (60.9)
Unrecognized gains on cash flow revenue hedges	[redacted]	7.7
Foreign currency translation adjustments, net of related hedging activities [1]	[redacted]	1.1
Unrecognized loss on interest rate hedges	[redacted]	(0.6)
	[redacted]	$ (52.7)

1 The accumulated net adjustment is comprised of non-taxable translation loss of $2.6 million (2009 – $5.2 million gain) and a net revaluation of long-term debt designated as a net investment hedge of $2.4 million gain (2009 – $4.1 million loss), net of tax of $0.6 million expense (2009 – $0.3 million recovery).

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

20. RESTRUCTURING

The following table provides the activity in the restructuring liability:

	2010	2009
Balance, beginning of year	[redacted]	$ 16.3
Expensed in year	[redacted]	17.9
Disbursements	[redacted]	(22.3)
Other non-cash items	[redacted]	0.5
	[redacted]	12.4
Less: portion related to employee future benefits (note 15)	[redacted]	(5.6)
Balance, end of year	[redacted]	$ 6.8
Classification:		
Accounts payable and accrued liabilities (note 13)	[redacted]	$ 5.2
Other long-term obligations (note 16)	[redacted]	1.6
	[redacted]	$ 6.8

The following table provides restructuring liability by year of initiatives:

	2010	2009
2008 and prior initiatives	[redacted]	$ 4.1
2009 initiatives	[redacted]	2.7
2010 initiatives	[redacted]	–
	[redacted]	$ 6.8

2010

During the year ended December 31, 2010, the company recorded restructuring costs of $25.3 million primarily related to severances payable to eligible employees at Elk Falls resulting from extended curtailment and permanent closure.

2009

In 2009, the company recorded $10.8 million in costs related to 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. The company also recorded $2.3 million in costs related to permanent reductions of salaried staff positions at the Richmond and Nanaimo offices and indefinite layoffs at the Crofton and Elk Falls mills, where significant production capacity had been indefinitely curtailed, and $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 had 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-2009, 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.

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

In April 2008, the company announced the indefinite curtailment of the Elk Falls No. 1 paper machine ("E1") due to fibre shortages. The indefinite curtailment of E1 resulted in a reduction of approximately 145 employees at Elk Falls, the majority through layoffs. 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.

21. INTEREST EXPENSE, NET

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

	2010	2009	2008
Interest on long-term debt	[redacted]	$ 68.8	$ 78.0
Fixed-to-floating interest rate swaps	[redacted]	–	(2.9)
Other	[redacted]	0.6	0.3
	[redacted]	69.4	75.4
Interest income	[redacted]	(0.1)	(0.3)
Capitalized interest	[redacted]	–	(0.1)
	[redacted]	$ 69.3	$ 75.0

22. OTHER EXPENSES, NET

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

	2010	2009	2008
Fee related to bond exchange	[redacted]	$ 2.2	$ –
Loss (gain) on derivative financial instruments	[redacted]	(8.7)	45.5
Foreign exchange loss (gain) on working capital balances	[redacted]	28.4	(27.0)
Loss (gain) on disposal of property, plant and equipment	[redacted]	3.9	(0.4)
Island cogeneration arbitration settlement	[redacted]	1.4	–
Penalty and interest on disputed property taxes	[redacted]	1.4	–
Foreign exchange loss (gain) on hedge of net investment	[redacted]	–	(2.4)
Termination fee on closure of corrugating machine at Snowflake	[redacted]	–	(2.0)
Other	[redacted]	0.5	(0.1)
	[redacted]	$ 29.1	$ 13.6

23. EARNINGS PER SHARE

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

	2010	2009	2008
Net earnings (loss) attributable to the company	[redacted]	$ (4.4)	$ (219.8)
Weighted average shares used in computation of basic earnings per share (in millions)	[redacted]	381.8	336.1
Weighted average shares from assumed conversion of dilutive options (in millions)	[redacted]	–	–
Weighted average shares used in computation of diluted earnings per share (in millions)	[redacted]	381.8	336.1
Basic and diluted earnings (loss) per share attributable to the company's common shareholders (in dollars)	[redacted]	$ (0.01)	$ (0.65)

24. STOCK-BASED COMPENSATION PLANS

(a) Details of Stock-based Compensation Expense:

	2010	2009	2008
Stock option awards	[redacted]	$ 0.6	$ 1.0
Restricted share units	[redacted]	1.2	1.5
Deferred share units	[redacted]	0.5	0.2
	[redacted]	$ 2.3	$ 2.7

(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 includes stock options. Vesting of the stock options granted under the MLTIP is subject to the weighted average price per share of the common shares for all sales of such shares on the Toronto Stock Exchange ("TSX") over 20 consecutive trading days reaching or exceeding a price per share equal to twice the exercise price. These options have a 10-year life, and an exercise price that was established as 25% over the weighted average price per share of the common shares for all sales of common shares on the TSX during the five consecutive trading days preceding the date of the grant of the options. These options are exercisable on or after the earlier of August 1, 2012 or on the occurrence of a change of control event involving the company.

Options granted, other than those granted pursuant to the company's MLTIP, have a maximum term of 10 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.

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

The company applies the 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, 2010, the total remaining unrecognized compensation cost associated with the stock options totalled $0.2 million (2009 – $0.3 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:

	2010	2009	2008
Risk-free interest rate	[redacted]	3.0%	3.8%
Annual dividends per share	[redacted]	Nil	Nil
Expected stock price volatility	[redacted]	45%	40.0%
Expected option life (in years)	[redacted]	10.0	8.5
Average fair value of options granted (in dollars)	[redacted]	$ 0.16	$ 0.51

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:

	2010		2009		2008	
	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	[redacted]	[redacted]	5,843,984	$ 2.42	3,964,024	$ 3.43
Granted	[redacted]	[redacted]	204,000	0.40	2,691,891	1.23
Exercised	[redacted]	[redacted]	–	–	–	–
Forfeited	[redacted]	[redacted]	(336,534)	2.51	(811,931)	3.42
Expired or cancelled	[redacted]	[redacted]	(2,737,899)	1.93	–	–
End of year	[redacted]	[redacted]	2,973,551	2.72	5,843,984	2.42

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

The following table summarizes information about stock options outstanding and exercisable at December 31, 2010:

	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)
\$0.13 – \$0.80	5,236,647	9.6	\$ 0.13	60,000	\$ 0.40	\$ –
\$1.15 – \$1.95	790,917	7.1	1.36	573,945	1.36	–
\$3.06 – \$3.30	355,129	4.3	3.15	355,129	3.15	2.14
\$3.31 – \$3.77	680,500	4.5	3.53	680,500	3.53	5.05
\$4.39 – \$4.57	518,500	4.0	4.44	518,500	4.44	4.40
	7,581,693	8.2	\$ 1.00	2,188,074	\$ 3.03	\$ 2.96

The aggregate intrinsic value of options outstanding and currently exercisable as at December 31, 2010 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 for 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 long-term component of the MLTIP includes performance-based RSUs. Vesting of these RSUs occurs when the weighted average price per share of the company's common shares for all sales of such shares on the TSX over 20 consecutive trading days reaches or exceeds twice the price per share equal to 25% over the weighted average price per share of the common shares for all sales of common shares on the TSX during the five consecutive trading days preceding the date the RSUs were issued. These RSUs are to be paid out on the earlier of August 1, 2012 or on the occurrence of a change of control event involving the company. Compensation expense related to performance-based RSUs is recognized when it is probable that the performance conditions will be achieved.

As at December 31, 2010, the total remaining unrecognized compensation cost associated with the RSUs totalled \$0.2 million (2009 – \$0.4 million), which will be amortized over the vesting period.

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

Changes in the number of outstanding RSUs during the year ended December 31, 2010 were as follows:

	Number of shares	Weighted average fair value at grant date (in dollars)
Beginning of year	1,177,257	$ 2.43
Granted	3,150,000	0.09
Vested/exercised	(1,001,216)	2.67
Expired or cancelled	(31,195)	1.04
End of year	3,294,846	$ 0.13

(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, 2010, 484,963 DSUs were outstanding under this plan (2009 – 1,018,106) and approximately $0.1 million was payable (2009 – $0.2 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.

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 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.

At December 31, 2010, the company did not have any currency or commodity contracts which were designated as hedging instruments. At December 31, 2009, the company had currency contracts which were designated as hedging instruments with a total fair value of $16.7 million, of which $13.6 million was classified in *Prepaids and other* and $3.1 million in *Other assets.* At December 31, 2009, the company had currency contracts that were not designated as hedging instruments with a total fair value of $2.3 million, which were classified as *Prepaids and other.*

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

The following table presents information about the fair value of the company's derivative and non-derivative financial instruments measured at fair value on a recurring basis at December 31:

	2010	2009	Fair value hierarchy	Balance sheet classification
Assets	[redacted]			
Currency contracts	[redacted]	$ 2.3	2[1]	Prepaids and other
Currency contracts	[redacted]	–	2[1]	Other assets
Commodity contracts	[redacted]	–	2[2]	Prepaids and other
	[redacted]	$ 2.3		
Liabilities	[redacted]			
Commodity contracts	[redacted]	$ –	2[2]	Accounts payable and accrued liabilities

Fair values of the company's derivatives are classified under Level 2 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 previously designated as cash flow hedges until April 1, 2010 when hedge accounting was discontinued (note 2) and the effect of long-term debt designated as a hedge of the company's net investment in the Snowflake mill 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]	
	2010	2009	2010	2009		2010	2009
Derivatives designated as cash flow hedges							
Currency contracts	[redacted]	$ 14.5	[redacted]	$ 4.8	Other expense, net	[redacted]	$ 0.4
Long-term debt designated as hedges of net investment	[redacted]	$ 24.9	[redacted]	$ 1.0	Foreign exchange gain (loss) on long-term debt	[redacted]	$ –

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, 2010, the company estimates that a net gain of $1.5 million, or an after-tax net gain of $1.1 million, will be reclassified from *Accumulated other comprehensive income* to *Sales*.

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

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 the year ended December 31:

	Gain (loss) recognized in income		Classification on statement of earnings (loss)
	2010	2009	
Interest rate swaps	[redacted]	$ 0.7	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, 2010 (2009 – $nil).

The company has no fixed-to-floating interest rate swaps outstanding at December 31, 2010. The gain recognized in income for the years presented represents the effective portion of interest rate swaps previously designated as fair value hedges that were unwound in prior years. The effective portion is being amortized to income 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)
	2010	2009	
Currency contracts related to revenue hedges	[redacted]	$ 6.6	Other expense, net
Currency contracts related to debt hedges		(0.4)	Foreign exchange gain (loss) on long-term debt
Commodity swap contracts related to pulp and newsprint hedges		2.1	Other expense, net
Commodity swap contracts related to natural gas and old newspaper hedges		(0.4)	Other expense, net
		$ 7.9	

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.

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

(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 positions 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:

	2010	2009
Trade receivables, gross	[redacted]	
Current	[redacted]	$ 89.0
Past due 1-30 days	[redacted]	7.3
Past due 31-90 days	[redacted]	1.0
Past due over 90 days	[redacted]	1.4
	[redacted]	98.7
Allowance for doubtful accounts	[redacted]	(3.7)
Trade receivables, net	[redacted]	95.0
Other receivables, including sales tax recoverables	[redacted]	6.5
Accounts receivable (note 8)	[redacted]	$ 101.5

The movement in the allowance for doubtful accounts in respect of trade receivables during the years ended December 31 were as follows:

	2010	2009
Balance, beginning of year	[redacted]	$ 3.2
Increase (decrease) in provision	[redacted]	1.2
Utilized in the year	[redacted]	(0.7)
Balance, end of year (note 8)	[redacted]	$ 3.7

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.

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

(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. At December 31, 2010 and 2009, a portion of the company's U.S. dollar denominated long-term debt was designated as an effective hedge of the company's net investment in Snowflake mill. 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 and allows for anticipated purchases at 0% to 70% of 0- to 12-month, 0% to 60% of 13- to 24-month and 0% to 30% of 25- to 36-month of the net exposure for oil and natural gas. The outstanding hedge positions and the price risk associated with the company's commodity hedges are not significant.

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 to 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, 2010	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$/CDN$)	US$ 321	5%	8.5	–	(7.0)	–
– price risk (commodities)	US$ 10	5%	(0.4)	–	0.4	–
Oil and natural gas hedges						
– price risk (commodities)	CDN$ 3	5%	–	–	–	–

(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.

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

(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$millions	Average rate US$/CDN$	US$millions	Average rate US$/CDN$	US$millions	Average rate US$/CDN$
As at December 31, 2010						
0 to 12 months	[redacted]				[redacted]	
13 to 24 months						
	[redacted]				[redacted]	
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

The company no longer designates its U.S. dollar revenue risk management instruments as cash flow hedges for accounting purposes effective April 1, 2010 (note 2). For cash flow hedges that were in place as at March 31, 2010, the effective portion of changes in the fair value accumulated as at December 31, 2010 have been deferred and recorded in *Accumulated other comprehensive loss*. When the hedge item is recorded in earnings, the corresponding gain or loss on the hedge will be reclassified from *Accumulated other comprehensive loss* to *Sales*. At December 31, 2010, instruments having a notional principal of US$321 million are marked to market, where the related gains and losses are recognized as *Other expense, net*, except for the portion still deferred in *Accumulated other comprehensive loss*. At year-end exchange rates, the net amount the company would receive to settle the above contracts and options is $11.0 million (December 31, 2009 – $19.0 million).

At December 31, 2010, commodity swap agreements are outstanding to fix the sales price of 12,000 metric tonnes of NBSK pulp within the next 12 months. These contracts are not designated as hedging instruments for accounting purposes and are reported at their fair value, which was negative $0.1 million at the end of the year (December 31, 2009 – $nil).

(c) Cost Risk Management Instruments

At December 31, 2010, the company was party to commodity options to hedge the purchase price of natural gas for 0.7 million gigajoules ("GJ") within the next 15 months at rates averaging $3.96 per GJ. These instruments were not designated as hedging instruments for accounting purposes and were reported at fair value in *Prepaids and other* on the consolidated balance sheet. Changes in fair value was recognized in *Other expense, net*. At period-end contract rates, the fair value of these contracts was $0.1 million (December 31, 2009 – $nil).

(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, 2010 (December 31, 2009 – $nil) held for the purposes of managing exposure to foreign exchange rate fluctuations on the company's long-term debt.

(e) Interest Rate Swaps

The company had no fixed-to-floating interest rate swaps outstanding at December 31, 2010.

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

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, 2010.

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 2010, the company paid aggregate fees of $3.6 million (2009 – $7.1 million; 2008 – $10.0 million) primarily for obligations under a building lease, purchasing chips and hog fuel, services related to trucking chips and 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:

2011	$ 9.4
2012	7.1
2013	6.2
2014	5.2
2015	3.9
Subsequent years	21.1
	$ 52.9

The total lease expense amounted to $10.4 million in 2010 (2009 – $11.5 million; 2008 – $11.9 million).

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 provided an indemnity in respect of the shares that were issued to the vendors as part of the purchase price. 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, 2010, the value of the mortgage was $6.4 million (2009 – $7.9 million). This agreement does not increase the company's liability beyond the obligation under the building lease.

At December 31, 2010, 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, 2010 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.

(a) 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 its trade relationship in the 90 days prior to Quebecor's Chapter 11 filing in December 2007. The company is one of 1,700 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 believes it has a number of meritorious defenses and will vigorously defend itself. The company does not expect to incur any significant liability in connection with the Quebecor claim.

(b) Claim for Certain Post-Retirement Benefits

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, 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 Labour Relations Board declined to rule on the Locals' application or the company's defence to the claim on the basis that this matter is a dispute under the collective agreement and, accordingly, a matter to be determined by arbitration. All four Locals have filed grievances claiming that the company is responsible for these post-retirement benefits. The company does not agree with the Locals' positions and has contested or will be contesting the grievances. Local 76's claim was dismissed on December 23, 2010. The other three grievances are at a preliminary stage and, as at March 2, 2011, have not been scheduled. Although the extent of the company's liability for the remaining three claims remains unknown at this time, the company estimates that it would incur costs of between $1.5 million and $3.0 million annually to provide these additional benefits. In that case, it would seek indemnifications from Weyerhaeuser.

(c) Short-term Incentive Plan Benefit Claim

In May 2010, a salaried employee of the company commenced an action against the company in the Supreme Court of B.C. seeking a payment under the company's 2009 Short-term Incentive Plan and damages in connection with the reduction of certain employee benefits announced in November 2009. The employee is seeking certification of the action as a class proceeding on behalf of all salaried employees who were entitled to Short-term Incentive Plan payments and affected by the reduction in benefits. The application for certification was heard in February 2011 but, as of March 2, 2011, the court had not rendered its decision. The company intends to vigorously defend this action if certification occurs. Most of the company's employees and applicable former employees have provided the company with written releases of these claims on a settlement basis, leaving only a small number of employees and former employees who have not done so. Although it is not possible to determine the likelihood and extent of any potential liability for the remaining claims, the company does not expect to incur any additional material liability in connection with this claim.

31. SUBSEQUENT EVENT

On February 11, 2011, the company redeemed its remaining outstanding 8 5/8% Senior Notes due June 15, 2011 of $26,027,000 at a redemption price of 100% of the face value, plus accrued and unpaid interest.

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, 2014 and 2016. 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, 2010, 2009, and 2008. 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, 2010

	Catalyst Paper Corporation	Subsidiary guarantors	Subsidiary non-guarantors	Eliminating entries	Consolidated Catalyst Paper Corporation
Assets	[redacted]				
Current assets					
Cash and cash equivalents					
Accounts receivable					
Inventories					
Prepaids and other					
Property, plant and equipment					
Advances to related companies					
Investments in related companies					
Other assets					
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities					
Current portion of long-term debt					
Long-term debt					
Advances from related companies					
Employee future benefits					
Other long-term obligations					
Future income taxes					
Deferred credits					
Equity					
Shareholders' equity					
Common stock					
Additional paid-in capital					
Retained earnings (deficit)					
Accumulated other comprehensive income (loss)					
Non-controlling interest (deficit)					

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

Supplemental Consolidating Statement of Earnings (Loss)
For the year ended December 31, 2010

	Catalyst Paper Corporation	Subsidiary guarantors	Subsidiary non-guarantors	Eliminating entries	Consolidated Catalyst Paper Corporation
Sales	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Operating expenses	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Cost of sales, excluding depreciation and amortization	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Depreciation and amortization	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Selling, general and administrative	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Restructuring	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Impairment	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Operating earnings (loss)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Interest income (expense), net	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Foreign exchange gain (loss) on long-term debt	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Gain on cancellation of long-term debt	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Equity earnings in Partnership	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Other income (expense), net	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Earnings (loss) before income taxes	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Income tax expense (recovery)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Net earnings (loss)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Net (earnings) loss attributable to non-controlling interest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Net earnings (loss) before equity in earnings (loss) of subsidiaries	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Equity in earnings (loss) of subsidiaries	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Net earnings (loss) attributable to the company	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

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

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Supplemental Condensed Consolidating Statement of Cash Flows
For the year ended December 31, 2010

	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	$ (163.9)	$ 66.1	$ 2.7	$ 41.0	$ (44.1)
Investing					
Additions to property, plant and equipment	(2.9)	(6.3)	(2.0)		(11.2)
Proceeds from sale of property, plant and equipment	0.4	7.5			7.9
Decrease (increase) in other assets	(1.7)	0.5	[illegible]		(1.2)
Cash flows provided (used) by operations	(4.2)	1.7	(2.0)		(4.5)
Financing					
Increase (decrease) in advances to related companies	99.1	41.5	0.5	(141.1)	[illegible]
Increase (decrease) in long-term obligations		1.5	(1.5)		
Proceeds from (repayment of) long-term debt		(1.0)			(1.0)
Proceeds from long-term debt	98.4				98.4
Settlement on purchase of debt securities	(9.2)				(9.2)
Dividends received (paid)		(12.6)		12.6	
Distribution received (paid)	[illegible]	(85.7)	(1.9)	[illegible]	[illegible]
Repayment of revolving operating loan	(14.5)	14.5			
Proceeds on termination of debt hedges	(8.3)				(8.3)
Increase (decrease) in revolving loan		(14.9)		[illegible]	[illegible]
Deferred financing costs	(4.5)				(4.5)
	161.4	(56.7)	(2.8)	(41.0)	60.9
Cash and cash equivalents, increase (decrease) in the year	3.3	11.1	(2.1)		12.3
Cash and cash equivalents, beginning of year	63.3	13.9	5.9		83.1
Cash and cash equivalents, end of year	$ 66.6	$ 25.0	$ 3.8	$ –	$ 95.4

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

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	0.2	101.1	0.2	–	101.5
Inventories	–	178.3	–	–	178.3
Prepaids and other	13.9	10.9	0.4	–	25.2
	77.4	304.2	6.5	–	388.1
Property, plant and equipment	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	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	$ 29.2	$ 139.4	$ 4.7	$ –	$ 173.3
Current portion of long-term debt	0.9	0.1	–	–	1.0
	30.1	139.5	4.7	–	174.3
Long-term debt	647.9	13.8	112.9	–	774.6
Advances from related companies	388.6	152.1	23.0	(563.7)	–
Employee future benefits	26.4	268.2	–	–	294.6
Other long-term obligations	8.7	3.2	1.5	–	13.4
Future income taxes	41.9	–	17.1	(36.2)	22.8
Deferred credits	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)	(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

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

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	$ –	$ 1,225.4	$ 16.7	$ (18.6)	$ 1,223.5
Operating expenses					
Cost of sales, excluding depreciation and amortization	26.4	1,023.5	6.3	(18.6)	1,037.6
Depreciation and amortization	125.0	18.4	3.2	–	146.6
Selling, general and administrative	24.2	20.6	–	–	44.8
Restructuring	–	17.9	–	–	17.9
Impairment and other closure costs	–	17.4	–	–	17.4
	175.6	1,097.8	9.5	(18.6)	1,264.3
Operating earnings (loss)	(175.6)	127.6	7.2	–	(40.8)
Interest expense, net	(37.8)	(19.6)	(11.9)	–	(69.3)
Gain on cancellation of long-term debt	–	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	26.9	(56.1)	0.1	–	(29.1)
Earnings (loss) before income taxes	(3.1)	83.0	(4.6)	(108.5)	(33.2)
Income tax recovery	(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	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)

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	$ (38.3)	$ 242.9	$ (7.2)	$ (93.8)	$ 103.6
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	–	–	(75.7)	–	(75.7)
Proceeds from long-term debt	–	–	95.0	–	95.0
Proceeds on termination of debt foreign currency contracts	34.7	–	–	–	34.7
Settlement on purchase of debt securities	(26.9)	–	–	–	(26.9)
Note exchange costs	(2.2)	–	–	–	(2.2)
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	110.5	(240.7)	11.2	96.4	(22.6)
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

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	$ –	$ 1,866.7	$ 18.6	$ (18.6)	$ 1,866.7
Operating expenses					
Cost of sales, excluding depreciation and amortization	32.7	1,592.8	4.9	(18.6)	1,611.8
Depreciation and amortization	122.8	39.8	3.2	–	165.8
Selling, general and administrative	24.2	22.4	0.3	–	46.9
Restructuring	–	30.1	–	–	30.1
Impairment and other closure costs	–	151.0	–	–	151.0
	179.7	1,836.1	8.4	(18.6)	2,005.6
Operating earnings (loss)	(179.7)	30.6	10.2	–	(138.9)
Interest expense, net	(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	2.9	(17.0)	0.5	–	(13.6)
Earnings (loss) before income taxes	(177.9)	(15.3)	0.3	(116.8)	(309.7)
Income tax recovery	(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	(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)

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

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	–	(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	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) in the 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

33. RECONCILIATION OF UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The company's consolidated financial statements have been prepared in accordance with U.S. GAAP, 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 (loss) adjustments

The following table provides a reconciliation of the net earnings (loss) from U.S. GAAP to Canadian GAAP:

Years ended December 31,	2010	2009	2008
Net earnings (loss) as reported under U.S. GAAP	[redacted]	$ (5.6)	$ (219.0)
Net (earnings) loss attributable to non-controlling interest (a)	[redacted]	1.2	(0.8)
Foreign exchange gain on hedge of net investment (b)	[redacted]	–	(2.4)
Amortization related to hedge of net investment (b)	[redacted]	0.2	–
Income tax effect of rate change on employee future benefits	[redacted]	0.7	1.1
Net earnings (loss) in accordance with Canadian GAAP	[redacted]	(3.5)	(221.1)
Other comprehensive income (loss), net of taxes:	[redacted]		
Other comprehensive income (loss) in accordance with U.S. GAAP	[redacted]	(6.9)	14.6
Other comprehensive loss attributable to non-controlling interest	[redacted]	0.6	–
Reclassification of amortization of employee future benefits included in pension cost, net of tax expense (recovery) of $1.1 million (2009 – $2.5 million; 2008 – $3.6 million) (c)	[redacted]	(6.8)	(10.3)
Employee future benefits liability adjustment net of taxes of $3.9 million (2009 – ($9.9) million; 2008 – $8.1 million) (c)	[redacted]	26.2	(22.8)
Comprehensive income (loss) in accordance with Canadian GAAP	[redacted]	$ 9.6	$ (239.6)
Basic and diluted net earnings (loss) per share in accordance with Canadian GAAP (in dollars)	[redacted]	$ (0.01)	$ (0.66)
Basic and diluted weighted average number of shares in accordance with Canadian GAAP (in millions)	[redacted]	381.8	336.1

Consolidated statements of earnings and comprehensive income (loss) under U.S. GAAP and Canadian GAAP:

	2010		2009		2008	
Years ended December 31,	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
Sales	[redacted]	[redacted]	$ 1,223.5	$ 1,223.5	$ 1,866.7	$ 1,866.7
Operating expenses						
Cost of sales, excluding depreciation and amortization	[redacted]	[redacted]	1,037.6	1,037.6	1,611.8	1,611.8
Depreciation and amortization	[redacted]	[redacted]	146.6	146.4	165.8	165.8
Selling, general and administrative	[redacted]	[redacted]	44.8	44.8	46.9	46.9
Restructuring and change-of-control	[redacted]	[redacted]	17.9	17.9	30.1	30.1
Impairment and other closure costs	[redacted]	[redacted]	17.4	17.4	151.0	151.0
	[redacted]	[redacted]	1,264.3	1,264.1	2,005.6	2,005.6
Operating earnings (loss)	[redacted]	[redacted]	(40.8)	(40.6)	(138.9)	(138.9)
Interest expense, net	[redacted]	[redacted]	(69.3)	(69.3)	(75.0)	(75.0)
Gain on cancellation of long-term debt	[redacted]	[redacted]	30.7	30.7	–	–
Foreign exchange gain (loss) on long-term debt	[redacted]	[redacted]	75.3	75.3	(82.2)	(82.2)
Other income (expense), net	[redacted]	[redacted]	(29.1)	(29.1)	(13.6)	(16.0)
Earnings (loss) before income taxes	[redacted]	[redacted]	(33.2)	(33.0)	(309.7)	(312.1)
Income tax recovery	[redacted]	[redacted]	(27.6)	(28.3)	(90.7)	(91.8)
Net earnings (loss) before non-controlling interest – Canadian GAAP	[redacted]	[redacted]	N/A	(4.7)	N/A	(220.3)
Non-controlling interest – Canadian GAAP	[redacted]	[redacted]	N/A	1.2	N/A	(0.8)
Net earnings (loss)	[redacted]	[redacted]	(5.6)	(3.5)	(219.0)	(221.1)
Net (earnings) loss attributable to non-controlling interest – U.S. GAAP	[redacted]	[redacted]	1.2	N/A	(0.8)	N/A
Net earnings (loss) attributable to the company – U.S. GAAP	[redacted]	[redacted]	$ (4.4)	$ N/A	$ (219.8)	$ N/A
Other comprehensive income (loss), before non-controlling interest – Canadian GAAP	[redacted]	[redacted]	N/A	12.5	N/A	(18.5)
Other comprehensive income (loss), net of taxes – U.S. GAAP	[redacted]	[redacted]	$ (6.9)	$ N/A	$ 14.6	$ N/A
Other comprehensive loss attributable to non-controlling interest	[redacted]	[redacted]	0.6	0.6	–	–
Comprehensive income (loss) – Canadian GAAP	[redacted]	[redacted]	N/A	9.6	N/A	(239.6)
Comprehensive income (loss) attributable to the company – U.S. GAAP	[redacted]	[redacted]	(10.7)	N/A	(205.2)	N/A
Basic and diluted net earnings (loss) per share (in dollars)	[redacted]	[redacted]	$ (0.01)	$ (0.01)	$ (0.65)	$ (0.66)
Weighted average common shares outstanding (in millions)	[redacted]	[redacted]	381.8	381.8	336.1	336.1

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

Balance sheet adjustments

The following table provides a reconciliation of the consolidated balance sheets components from U.S. GAAP to Canadian GAAP:

As at December 31,	2010	2009
Prepaids and other – U.S. GAAP	[redacted]	$ 25.2
Tax effect of employee future benefits adjustment (c)	[redacted]	–
Deferred financing costs (d)	[redacted]	–
Prepaids and other – Canadian GAAP	[redacted]	$ 25.2
Property, plant and equipment – U.S. GAAP	[redacted]	$ 1,664.7
Foreign exchange gain on hedge of net investment, net of amortization (b)	[redacted]	(2.2)
Property, plant and equipment – Canadian GAAP	[redacted]	$ 1,662.5
Other assets – U.S. GAAP	[redacted]	$ 38.0
Employee future benefits (c)	[redacted]	35.2
Tax effect of employee future benefits adjustment	[redacted]	(1.9)
Deferred financing costs (d)	[redacted]	(6.6)
Non-controlling interest deficit (a)	[redacted]	18.0
Other assets – Canadian GAAP	[redacted]	$ 82.7
Accounts payable and accrued liabilities – U.S. GAAP	[redacted]	$ 173.3
Employee future benefits (c)	[redacted]	–
Accounts payable and accrued liabilities – Canadian GAAP	[redacted]	$ 173.3
Long-term debt – U.S. GAAP	[redacted]	$ 774.6
Deferred financing costs (d)	[redacted]	(6.6)
Long-term debt – Canadian GAAP	[redacted]	$ 768.0
Employee future benefits – U.S. GAAP	[redacted]	$ 294.6
Employee future benefits (c)	[redacted]	(59.0)
Employee future benefits – Canadian GAAP	[redacted]	$ 235.6
Future income taxes – U.S. GAAP	[redacted]	$ 22.8
Tax effect of employee future benefits adjustment	[redacted]	31.4
Tax effect of other adjustments	[redacted]	(9.1)
Future income taxes – Canadian GAAP	[redacted]	$ 45.1
Equity – U.S. GAAP	[redacted]	$ 795.6
Foreign exchange gain on hedge of net investment, net of amortization (b)	[redacted]	(2.2)
Employee future benefits (c)	[redacted]	94.2
Tax effect of employee future benefits adjustment	[redacted]	(33.3)
Tax effect of other adjustments	[redacted]	9.1
Non-controlling interest deficit (a)	[redacted]	18.0
Equity – Canadian GAAP	[redacted]	$ 881.4

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

The following table provides a reconciliation of AOCI from U.S. GAAP to Canadian GAAP:

As at December 31,	2010	2009
Accumulated other comprehensive income (loss) – U.S. GAAP	[redacted]	$ (52.7)
Employee future benefits (b)		60.9
Accumulated other comprehensive income (loss) – Canadian GAAP		$ 8.2

Consolidated balance sheets under U.S. GAAP and Canadian GAAP:

As at December 31,	2010		2009	
	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
Assets	[redacted]			
Current assets				
Cash and cash equivalents			$ 83.1	$ 83.1
Accounts receivable			101.5	101.5
Inventories			178.3	178.3
Prepaids and other			25.2	25.2
			388.1	388.1
Property, plant and equipment			1,664.7	1,662.5
Other assets			38.0	82.7
			$ 2,090.8	$ 2,133.3
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities			$ 173.3	$ 173.3
Current portion of long-term debt			1.0	1.0
			174.3	174.3
Long-term debt			774.6	768.0
Employee future benefits			294.6	235.6
Other long-term obligations			13.4	13.4
Future income taxes			22.8	45.1
Deferred credits			15.5	15.5
			1,295.2	1,251.9
Equity				
Shareholders' equity				
Common stock			1,035.0	1,035.0
Additional paid-in capital			16.4	16.4
Retained earnings (deficit)			(185.1)	(178.2)
Accumulated other comprehensive income (loss)			(52.7)	8.2
			813.6	881.4
Non-controlling interest (deficit)			(18.0)	–
			795.6	881.4
			$ 2,090.8	$ 2,133.3

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

(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 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, 2010 and 2009 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	
	2010	2009	2010	2009
Accrued benefit obligation at end of year	[redacted]	$ 360.7	[redacted]	$ 189.3
Fair value of plan assets at end of year	[redacted]	241.6	[redacted]	–
Funded status deficit, recognized in the U.S. GAAP consolidated balance sheets	[redacted]	(119.1)	[redacted]	(189.3)
Unrecognized prior service (credits) costs	[redacted]	4.7	[redacted]	(18.5)
Unrecognized actuarial (gains) losses	[redacted]	92.8	[redacted]	15.1
Accrued benefit obligation recognized in the Canadian GAAP consolidated balance sheets	[redacted]	$ (21.6)	[redacted]	$ (192.7)

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	
	2010	2009	2010	2009
Other assets	[redacted]	$ 35.4	[redacted]	$ –
Accounts payable and accrued liabilities	[redacted]	(6.8)	[redacted]	(7.3)
Employee future benefits	[redacted]	(50.2)	[redacted]	(185.4)
Accrued benefit obligation recognized in the consolidated balance sheets	[redacted]	$ (21.6)	[redacted]	$ (192.7)

(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.

This is Exhibit "D" referred to in the affidavit of Deborah Hamann-Trou sworn before me at Vancouver this 17th day of June, 2012.

A Commissioner for taking Affidavits for British Columbia

TOWERS PERRIN

June 4, 2009

Sandra Jones
Financial Institutions Commission of BC
1200-13450 102nd Avenue
Surrey, BC
V3T 5X3

Dear Ms. Jones:

CATALYST PAPER CORPORATION RETIREMENT PLAN FOR SALARIED EMPLOYEES - REGISTRATION NO. P085400

This letter has been prepared on behalf of Catalyst Paper Corporation for filing with the Financial Institutions Commission of BC. The purpose of the letter is to provide an actuarial certification of the schedule of solvency amortization payments resulting from an extension of the solvency amortization period from 5 years to 15 years for the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Plan"). This letter addresses the defined benefit component of the Plan only.

BACKGROUND

An actuarial valuation for the plan was performed as at December 31, 2007 and was filed with the Financial Institutions Commission of BC under correspondence dated December 19, 2008. The actuarial valuation revealed a going concern funding deficit of $12,605,214 and a solvency deficit of $44,651,428 as at December 31, 2007. The company has been contributing in accordance with the contribution requirements outlined in the December 31, 2007 report in respect of the defined benefit normal actuarial cost and the going concern and solvency deficits.

The Superintendent of Pensions issued Information Bulletin PEN-09-001 in January 2009 providing guidance to plan administrators who are considering making solvency extension requests. In accordance with Catalyst Paper Corporation's application to the Superintendent of Pensions to extend the time period required for solvency payments under Section 6 of the Pension Benefits Standards Act (British Columbia) and the application requirements specified in Information Bulletin PEN-09-001, this letter provides information on the revised schedule of payments sufficient to fully amortize the solvency deficiency over the extended period.

Towers Perrin Inc.
1100 Melville Street, Suite 1600, Vancouver, B.C. V6E 4A6 tel 604.691.1000 fax 604.691.1062 www.towersperrin.com

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ACTUARIAL BASIS, MEMBERSHIP DATA AND PLAN PROVISIONS

The membership data, actuarial assumptions and methods and plan provisions are the same as those used for the actuarial valuation as at December 31, 2007. The discount rate used for determining the solvency amortization payments is 4.50% per year. Further details on the actuarial basis, the membership data and the plan provisions can be found in Appendix B, Appendix C and Appendix D of the December 31, 2007 valuation report, respectively.

AMORTIZATION SCHEDULES

As disclosed in the December 31, 2007 valuation report, the statutory solvency deficiency revealed at December 31, 2007 together with the remaining statutory solvency deficiencies from the previous actuarial valuations must be liquidated by the employer amortization payments at least equal to the amount, payable quarterly in arrears, and for the periods set forth below in order to comply with the Regulation to the Pension Benefits Standards Act (British Columbia):

Five-Year Amortization Schedule as at December 31, 2007

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2004	Dec. 2018	Dec. 2012	$ 1,582,137	$ 7,061,677
Solvency	Jan. 1, 2004	Dec. 2008	Dec. 2008	6,969,898	6,781,279
Solvency	Jan. 1, 2007	Dec. 2011	Dec. 2011	3,881,782	14,158,839
Solvency	Jan. 1, 2008	Dec. 2012	Dec. 2012	3,730,276	16,649,633
Total				$ 16,164,093	$ 44,651,428

Further to Catalyst Paper Corporation's application to the Superintendent to extend the solvency amortization period from 5 years to 15 years, the employer contributions, payable quarterly in arrears, required to liquidate the statutory solvency deficiency revealed at December 31, 2007 together with the remaining unfunded actuarial liability and statutory solvency deficiencies from the previous actuarial valuations are as follows:

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Fifteen-Year Amortization Schedule as at December 31, 2007

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2004	Dec. 2018	Dec. 2018	$ 1,582,137	$ 13,719,540
Solvency [1]	Jan. 1, 2004	Dec. 2008	Dec. 2008	6,969,898	6,781,279
Solvency	Jan. 1, 2007	Dec. 2021	Dec. 2021	1,362,245	14,158,839
Solvency	Jan. 1, 2008	Dec. 2022	Dec. 2022	915,072	9,991,770
Total				$ 10,829,352	$ 44,651,428

Note:
[1] The solvency schedule effective January 1, 2004 has been paid in full as of the date of this letter and therefore, this schedule has not been extended beyond December 31, 2008.

CERTIFICATION

In our opinion, for the purpose of determining the schedule of solvency amortization payments resulting from the extension of the solvency amortization period from 5 years to 15 years, the data are sufficient and reliable, the assumptions are, in aggregate, appropriate and the methods employed are appropriate. This letter has been prepared, and our opinion has been given, in accordance with accepted actuarial practice.

If Catalyst Paper Corporation's application to extend the solvency amortization period from 5 years to 15 years is approved by the Superintendent of Pensions:

- The employer contributions, payable quarterly in arrears, required to liquidate the statutory solvency deficiency revealed at December 31, 2007 together with the remaining unfunded actuarial liability and statutory solvency deficiencies from the previous actuarial valuations are as follows:

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Type of payment	Effective date	Month of last payment	Month of last payment recognized in solvency present value	Annual amortization payment	Present value on solvency basis (at 4.50% p.a.)
Going concern	Jan. 1, 2004	Dec. 2018	Dec. 2018	$ 1,582,137	$ 13,719,540
Solvency	Jan. 1, 2004	Dec. 2008	Dec. 2008	6,969,898	6,781,279
Solvency	Jan. 1, 2007	Dec. 2021	Dec. 2021	1,362,245	14,158,839
Solvency	Jan. 1, 2008	Dec. 2022	Dec. 2022	915,072	9,991,770
Total				$ 10,829,352	$ 44,651,428

- The employer defined benefit normal actuarial cost contributions should continue to be made in accordance with the most recently filed valuation report as at December 31, 2007.

- The next actuarial valuation of the plan should be performed with an effective date not later than December 31, 2010.

The results shown in this letter are reasonable actuarial results reflecting the actuaries' judgment of future events. However, a different set of results could also be considered reasonable actuarial results since accepted actuarial practice does not prescribe a single "best-estimate" for each assumption. Thus, reasonable results differing from those presented in this letter could have been developed by selecting different assumptions based on a different judgment of future events. Future contribution levels may change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future experience gains or losses. None of these changes have been anticipated at this time, but will be revealed in future actuarial valuations.

TOWERS PERRIN

The information contained in this letter was prepared for Catalyst Paper Corporation, for its internal use and for filing with the Financial Institutions Commission of BC, in connection with Towers Perrin's actuarial valuation of the Plan. This letter is not intended or necessarily suited for other purposes. Further distribution of all or part of this report to other parties (except where such distribution is required by applicable legislation) or other use of this report is expressly prohibited without Towers Perrin's prior written consent.

Towers Perrin Inc.

Sincerely,

Bernard Mercier, FCIA — Date: June 4, 09

Jaime Omichinski, FCIA — Date: Jun 4/09

cc: David Smales — Catalyst Paper Corporation

Catalyst

Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, British Columbia
Canada V7B 1C3

Tel: 604 247 4400
Fax: 604 247 0512

June 12, 2009

Ms. S. Jones, Senior Pension Analyst
Financial Institutions Commission of B.C.
1200-13450 102nd Avenue
Surrey, B.C. V3T 5X3

Dear Ms. Jones:

APPLICATION FOR SOLVENCY EXTENSION
CATALYST PAPER CORPORATION RETIREMENT PLAN
FOR SALARIED EMPLOYEES - REGISTRATION NO. P085400
CATALYST PAPER CORPORATION RETIREMENT PLAN "A"
– REGISTRATION NO. P085994

Further to your conversation with our actuary, Bernard Mercier of Towers Perrin, and Bulletin PEN-09-001, *Guidelines for Requests for Solvency Extensions for Defined Benefit Pension Plans*, please accept this letter as application to the Superintendent for an extension of the time period required for solvency payments under Section 6 of the *Pension Benefits Standards Act* (PBSA) for both the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Salaried Plan") and Catalyst Paper Corporation Retirement Plan "A" ("Plan A").

DETAILS REGARDING SOLVENCY EXTENSION REQUEST

The global economic recession has negatively impacted the pulp and paper industry in 2008 and continues to do so in the first half of 2009. Weak advertising spending and ongoing structural changes in the newspaper industry has resulted in significant declines for pulp and paper products. In order to improve our ability to emerge from the current recession, it is vital to reduce cash flow requirements during this period of production curtailment. An extension of the solvency amortization period, in combination with other initiatives Catalyst is currently pursuing, will assist us to achieve this goal. Further information on other actions Catalyst is currently pursuing to reduce its cash flow requirements is provided in this letter.

We are formally requesting an extension of an additional 10 years to the PBSA five-year requirement to fund solvency deficiencies, resulting in a solvency amortization period of 15 years. Furthermore, we are requesting this extension take effect retroactively to the actuarial valuation results as at December 31, 2007. The payments required under the current 5-year amortization schedule and under the requested 15-year amortization schedule for each of the Salaried Plan and Plan A, based on the results of the actuarial valuations as at December 31, 2007, are as follows:

SALARIED PLAN

Current Amortization Schedule as at December 31, 2007

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2004	Dec. 2018	Dec. 2012	$ 1,582,137	$ 7,061,677
Solvency	Jan. 1, 2004	Dec. 2008	Dec. 2008	6,969,898	6,781,279
Solvency	Jan. 1, 2007	Dec. 2011	Dec. 2011	3,881,782	14,158,839
Solvency	Jan. 1, 2008	Dec. 2012	Dec. 2012	3,730,276	16,649,633
Total				$ 16,164,093	$ 44,651,428

Revised Amortization Schedule as at December 31, 2007

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2004	Dec. 2018	Dec. 2018	$ 1,582,137	$ 13,719,540
Solvency	Jan. 1, 2004	Dec. 2008	Dec. 2008	6,969,898	6,781,279
Solvency	Jan. 1, 2007	Dec. 2021	Dec. 2021	1,362,245	14,158,839
Solvency	Jan. 1, 2008	Dec. 2022	Dec. 2022	915,072	9,991,770
Total				$ 10,829,352	$ 44,651,428

PLAN A

Current Amortization Schedule as at December 31, 2007

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2002	Dec. 2016	Dec. 2012	$ 115,111	$ 513,784
Solvency	Jan. 1, 2004	Dec. 2008	Dec. 2008	348,010	338,592
Solvency	Jan. 1, 2007	Dec. 2011	Dec. 2011	429,137	1,565,282
Solvency	Jan. 1, 2008	Dec. 2012	Dec. 2012	169,790	757,835
Total				$ 1,062,048	$ 3,175,493

Revised Amortization Schedule as at December 31, 2007

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2002	Dec. 2016	Dec. 2016	$ 115,111	$ 850,708
Solvency	Jan. 1, 2004	Dec. 2008	Dec. 2008	348,010	338,592
Solvency	Jan. 1, 2007	Dec. 2011	Dec. 2021	429,137	1,565,282
Solvency	Jan. 1, 2008	Dec. 2012	Dec. 2022	38,548	420,911
Total				$ 652,267	$ 3,175,493

Copies of the current valuation reports as at December 31, 2007 for the Salaried Plan and Plan A were previously filed with your office on December 19, 2008. Please find attached a Supplementary Actuarial Opinion to each of these reports providing certification by our actuaries of the above revised solvency amortization schedules of payments as being sufficient to fully amortize the respective solvency deficiencies over the requested extended period.

FICOM CONSIDERATIONS IDENTIFIED IN BULLETIN PEN-09-001

The following discussion addresses the specific factors identified in Bulletin PEN-09-001 for the Superintendent's consideration of solvency extension determinations:

1) *Is the request for a solvency deficiency payment extension demonstrably in the best interests of plan members?*

The global economic recession has been difficult on many corporations and the pulp and paper industry is no exception. Demand for most paper grades and pulp are expected to remain at historic lows throughout the balance of 2009 and fibre supply remains constrained due to sawmill curtailments, linked to a record low number of housing starts in the United States. Cost management will be key for ensuring ongoing operations for our company during these trying times. The reduction in the annual required contribution requirement resulting from the extension of the solvency deficiency payment period, combined with other measures Catalyst is currently implementing, will improve cash flow and preserve liquidity, improving our ability to weather the recession and continue operations well into the future. The continued operations of Catalyst will provide needed employment opportunities to sustain the communities in which it operates and future incomes, benefits and pension accruals for its employees. An extension of the solvency amortization period is, over the long term, in the best interests of its plan members.

2) *Is the solvency deficiency the result of factors that were largely beyond the control of the plan administrator?*

The solvency deficiencies experienced by the plan over the last few years are largely due to two factors:

- The defined benefit provision of the plan is closed to new members and as such is largely comprised of retirees and beneficiaries and active members nearing retirement. In fact, over 95% of the plan's solvency liabilities are in respect of members either in receipt of retirement benefits or eligible for early retirement. Over the last several years, there has been a significant decline in long-term Government bond yields. As these yields are the underlying assumption for group annuity purchase rates, this decline has created substantial increases in the plan's defined benefit solvency liabilities over the last several years. Catalyst has no control over the annuity purchase rates used for determining the solvency liabilities as these rates are prescribed by the nature of the regulations for solvency valuations and by the group annuity market.

- Similar to other pension plans, the Catalyst plan's assets achieved modest returns in 2007, resulting in significant investment losses on a solvency valuation basis. The modest returns were largely due to an underweighting in Canadian equities and the unfavourable performance of foreign equities due to the strength of the Canadian dollar compared to other major world currencies. Similar to most Canadian pension plans, Catalyst's plan is reasonably invested in a diverse portfolio comprised of Canadian fixed income assets, Canadian equities and foreign equities.

3) *Would the special payments normally required to eliminate the solvency deficiency result in severe financial hardship for the plan sponsor, which can only be resolved through the solvency extension?*

Pulp and paper markets are expected to remain weak and price declines are likely to continue for some time due to the current imbalance between supply and demand. To try to cope with these challenges, we have already implemented more flexible work practices in our mills and, over the last two years, significantly reduced capital spending. In addition, in the last 18 months, we have, unfortunately, terminated almost a third or our workforce and cut costs everywhere possible, including a salary freeze since 2007 for management and salaried staff. Despite these efforts, with the worldwide credit crisis and the worldwide recession which began in September, the North American and global economic environment are expected to remain challenging for Catalyst in 2009 and the foreseeable future and we anticipate we will see further losses.

It is the belief of Catalyst management that the company and its four BC mills can survive to benefit from better times, but every effort to reduce costs must be made to ensure our mills are competitive. We are committed to identifying and implementing every action possible to make certain it is not one of our mills that will permanently close.

A reduction in our annual pension plan contribution requirements is a key component of our efforts to manage our cash flow and preserve liquidity. We are hopeful that this measure, in combination with the following other efforts we are currently pursuing, will help us achieve the necessary reductions in our cash flow requirements:

- Reduction of BC municipal property taxes: About half of Catalyst's losses over the past five years have been caused by uncompetitively high municipal taxes. Discussions are currently ongoing with the 4 BC municipalities in which our mills operate to work towards more competitive and equitable property tax rates reflecting the actual cost of the services consumed. We have recently petitioned for our 2009 municipal property tax bills to be judicially reviewed by the BC Supreme Court on the basis that these taxes are unreasonable.

- Implementation of $80/tonne labour cost plans at all mills: Our attention to cost management is ongoing and we are focused on removing cost and production inefficiencies at each of our mills. Our Snowflake and Port Alberni mills already have the appropriate manning and work practices to operate at the target level and a restructuring plan is currently being implemented at our Powell River mill to reach the same target. Agreements have been made with the unions at our Elk Falls and Crofton mills that contain commitments towards achieving the $80/tonne labour cost plan target.

- Indefinite plant closures and temporary salaried staff layoffs: Due to the current downward trend in advertising and paper consumption and the continuing unavailability of fibre supply, production curtailments have been put in effect, primarily at our Elk Falls and Crofton mills, in an effort to maintain appropriate inventory levels. Approximately 40% of Catalyst's operating capacity is currently curtailed. In conjunction, we recently announced that 55 salaried staff have been indefinitely laid off until market conditions improve and a further 42 corporate salaried staff have had employment terminated.

4) *Has the plan sponsor provided strong assurance of its ongoing financial viability for the period of the solvency extension?*

Despite unprecedented business challenges over the last twelve months, due to steps taken towards cost improvements and leveraging our strengths in all parts of our operations, we posted improved financial results in 2008. Our specialty printing papers and newsprint showed a turnaround from operating losses in 2007 to operating gains in 2008. Although 2009 and 2010 will see results deteriorate from 2008 due to lower volume and pricing, we are dedicated to achieving sustained improvement going forward and believe that the initiatives we have taken and the improvement we have demonstrated to date means we are well-positioned to emerge from the current recession in a better cost position. We expect that those operations that do withstand this recession will be in a stronger position going forward as weaker competitors across North America will fail.

Foreign exchange volatility has been a persistent challenge for Catalyst. In 2008, we significantly expanded our recycled newsprint capacity through the acquisition of the low-cost Snowflake mill situated in Arizona. This mill not only provides a hedge against currency fluctuations but also strengthens our presence in US markets.

In August 2008, we successfully refinanced our previous operating credit facility that would have otherwise matured in 2009. We now have in place a $330 million asset-based loan facility, with acceptable covenants and a five-year term, which provides assurance of stability under current credit conditions and demonstrates that our core lenders are still willing to provide credit based on our ability to reduce costs and manage cash flow appropriately. Furthermore, we have no immediate debt maturities and our debt covenants are manageable.

Catalyst has invested significant capital and effort over the last 7 years to migrate the products we make away from lower value-add, declining paper grades such as newsprint and into higher value-add specialty grades. While all paper grades are currently suffering due to the severe drop in advertising, Catalyst's higher exposure to specialty uncoated and coated mechanical grades, used particularly by retailers, means we will be better positioned to take advantage of increased advertising levels in future years.

Over the longer term we believe that BC, and in particular the BC Coast, is a very attractive environment for low cost, viable paper mills. Paper making requires four key inputs – access to competitively priced fibre, low cost energy, abundant water supply and a skilled workforce. The BC Coast is well positioned with respect to all four of these requirements. It indeed has the lowest cost electricity supply in North America and is one of the only regions in North America where availability of fibre is likely to grow over the next 3 to 10 years. These natural advantages, when combined with our product mix and the continued progress we expect to see on labour costs and municipal taxes, should lead to Catalyst's continued operation on the BC Coast, provided we can withstand the worst recession for many generations.

5) *Does the plan administrator have a good record with respect to the plan administration and regulatory filings?*

As part of Catalyst's plan governance process, the Retirement Plan Committee annually reviews the plans' compliance with respect to the provisions of the plans, the *Pension Benefits Standards Act* and the *Income Tax Act* (Canada). This review is documented in a report referred to as the "Compliance Checklist". If any areas of non-compliance are identified during this review, corrective actions are discussed and immediately implemented, as required.

As you are aware, in early 2009, FICOM completed an onsite examination of the plans. The examination addressed the plans' investment activities, actuarial reports, plan governance, record keeping and regulatory compliance. The examination indicated that the plans are well managed overall and had identified only two areas of concern: the Salaried Plan's priority payout provisions relating to the allocation of assets on plan termination and documentation relating to the securities lending practices in the plans' Statement of Investment Policies and Procedures. Catalyst has since addressed both of these issues and amended the Salaried Plan document and the Statement of Investment Policies and Procedures per FICOM's recommendations.

6) *Have all required contributions and special payments to the plan's fundholder been remitted within the regulatory deadlines?*

All required contribution and special payments have been remitted to CIBC Mellon, the plans' trustee, within the regulatory deadlines. Please find attached a report from the plans' trustee, CIBC Mellon, confirming the remittances of the required contributions and special payments as well as showing the timing and amount of each transaction for each of the past three years.

7) *Has the plan administrator reviewed the form and design of its plan to ensure that the benefits are affordable?*

The defined benefit provision of the Salaried Plan has been closed to new membership since 1994 and all new entrants are enrolled in the defined contribution provision of the plan. As such, the bulk of the plan membership is composed of retirees and beneficiaries. The monthly pension benefits in payment have not been indexed in several years and therefore, a reduction in the existing pension payment amounts is not being considered. In respect of the existing active DB membership of the Salaried Plan, the average active member is approximately 55 years old with 27 years of credited service. As the majority of the plan members are near retirement, a reduction in the future service benefits would not provide much relief in regards to contribution requirements. Furthermore, the benefits currently provided under the Salaried Plan are comparable to other benefits provided to long-service salaried employees in the forest industry. As such, a reduction in the benefits provided to these members is not being considered.

Plan A has no active members and has not provided any indexation to benefits for several years. A reduction in the existing pension payment amounts is therefore not being considered.

OTHER APPLICATION REQUIREMENTS

Further to the application requirements specified in Bulletin PEN-09-001:

- Please find enclosed copies of the company financial statements for the last three years of operations.
- We confirm that we will not increase plan benefits during the solvency deficiency period without the written approval of the Superintendent.

We look forward to your approval of the extension of the solvency amortization period as requested in this correspondence. Please contact me should you have any questions or require any additional information.

Sincerely,

CATALYST PAPER CORPORATION

David Smales
Vice President, Finance and Chief Financial Officer

Attachments: Actuarial Certifications
Copies of Company financial statements for last three years
Reports from CIBC Mellon on remittance of contributions

From:	Bernard N Mercier [bernard.n.mercier@towersperrin.com]
Sent:	Monday, August 24, 2009 3:09 PM
To:	Koomson, Abraham FIN:EX
Cc:	Smales, David (Richmond); Peters, Michael J FIN:EX; Staiger, Peter (Richmond)
Subject:	Re: Catalyst Paper Corporation Pension Plan for Salaried Employees (85400)/Retirement Plan "A" (85994)
Attachments:	Supplementary Opinion _Solvency Period Extension_Update.pdf

Supplementary Opinion _Solvenc...

Hi Abraham,

The attached letter provides the information requested in your email of August 17, 2009. Please contact me if you have any questions.

Bernard

(See attached file: Supplementary Opinion _Solvency Period Extension_Update.pdf)

Bernard Mercier FCIA, FSA Principal
Towers Perrin HR Services
[illegible]00 Melville Street, Suite 1600
Vancouver B.C. V6E 4A6
tel 604.691.1020 fax 604.691.1062
604.691.1070 (Assistant Cindy Chen)
bernard.mercier@towersperrin.com

"Koomson, Abraham FIN:EX" <Abraham.Koomson@ficombc.ca>	To: Bernard N Mercier/VNC/Towers Perrin@TP
08/17/2009 08:42 AM	cc: <david.smales@catalystpaper.com>, "Peters, Michael J FIN:EX" <Michael.Peters@ficombc.ca>
	Subject: Catalyst Paper Corporation Pension Plan for Salaried Employees (85400)/Retirement Plan "A" (85994)

Hi Bernard,

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As per our quick discussion on Friday, can you please provide us with revised schedules of solvency amortization payments for the solvency deficiencies with effective dates of Jan 1, 2007 and Jan 1, 2008 using the present values of payments at June 30, 2009. This is based on the presumption that all special payments up to June 30, 2009 have been made. Please assume the same month of last payments as in your application. This calculation assumes there will be no cessation in special payments from June 30, 2009.

Please provide us with a projected solvency ratio at December 2010 based on the original schedule in your application and another based on the requested schedule. Your calculations should reflect the return on plan assets as indicated in the 2008 Audited Financial Statement for Catalyst.

To expedite the review of your application, please provide this information to us by Friday August 21, 2009.

Contact me if you require clarification or you have any questions about your application.

Regards,

Abraham Koomson
Senior Analyst, Pensions
Financial Institutions Commission, British Columbia Phone #: 604 953-5412 Fax #: 604 953-5301

TOWERS PERRIN

August 24, 2009

Mr. Abraham Koomson
Financial Institutions Commission of BC
1200-13450 102nd Avenue
Surrey, BC
V3T 5X3

Dear Mr. Koomson:

CATALYST PAPER CORPORATION RETIREMENT PLAN FOR SALARIED EMPLOYEES - REGISTRATION NO. P085400

This letter is in response to your email of August 17, 2009 regarding the application for an extension of the solvency amortization period from 5 years to 15 years for the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Plan").

BACKGROUND

An actuarial valuation for the plan was performed as at December 31, 2007 and was filed with the Financial Institutions Commission of BC under correspondence dated December 19, 2008. The actuarial valuation revealed a going concern funding deficit of $12,605,214 and a solvency deficit of $44,651,428 as at December 31, 2007. The company has been contributing in accordance with the contribution requirements outlined in the December 31, 2007 report in respect of the defined benefit normal actuarial cost and the going concern and solvency deficits.

ACTUARIAL BASIS, MEMBERSHIP DATA AND PLAN PROVISIONS

The membership data, actuarial assumptions and methods and plan provisions are the same as those used for the actuarial valuation as at December 31, 2007. The discount rate used for determining the solvency amortization payments is 4.50% per year. Further details on the actuarial basis, the membership data and the plan provisions can be found in Appendix B, Appendix C and Appendix D of the December 31, 2007 valuation report, respectively.

TOWERS PERRIN

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AMORTIZATION SCHEDULES

As disclosed in the December 31, 2007 valuation report, the statutory solvency deficiency revealed at December 31, 2007 together with the remaining statutory solvency deficiencies from the previous actuarial valuations must be liquidated by the employer amortization payments at least equal to the amount, payable quarterly in arrears, and for the periods set forth below in order to comply with the Regulation to the Pension Benefits Standards Act (British Columbia):

Five-Year Amortization Schedule as at December 31, 2007

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2004	Dec. 2018	Dec. 2012	$ 1,582,137	$ 7,061,677
Solvency	Jan. 1, 2004	Dec. 2008	Dec. 2008	6,969,898	6,781,279
Solvency	Jan. 1, 2007	Dec. 2011	Dec. 2011	3,881,782	14,158,839
Solvency	Jan. 1, 2008	Dec. 2012	Dec. 2012	3,730,276	16,649,633
Total				$ 16,164,093	$ 44,651,428

As per FICOM's request, we have determined the present value of the remaining amortization schedule as at July 1, 2009 as set forth below:

Five-Year Amortization Schedule as at July 1, 2009

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2004	Dec. 2018	Dec. 2012	$ 1,582,137	$ 5,103,831
Solvency	Jan. 1, 2004	Dec. 2008	Dec. 2008	0	0
Solvency	Jan. 1, 2007	Dec. 2011	Dec. 2011	3,881,782	9,139,094
Solvency	Jan. 1, 2008	Dec. 2012	Dec. 2012	3,730,276	12,033,534
Total				$ 9,194,195	$ 26,276,459

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As per FICOM's request, we have determined the amortization schedule required to liquidate the present value of the amortization payments as of July 1, 2009 of $26,276,459 over a period of 15 years following the effective date of each deficit as shown below:

Fifteen-Year Amortization Schedule as at July 1, 2009

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2004	Dec. 2018	Dec. 2018	$ 1,582,137	$ 12,216,119
Solvency [1]	Jan. 1, 2004	Dec. 2008	Dec. 2008	-	-
Solvency [2]	Jul. 1, 2009	Dec. 2021	Dec. 2021	955,867	9,139,094
Solvency [3]	Jul. 1, 2009	Dec. 2022	Dec. 2022	486,180	4,921,246
Total				$ 3,024,184	$ 26,276,459

Notes:

[1] The solvency schedule effective January 1, 2004 has been paid in full as of the date of this letter and therefore, this schedule has not been included for the July 1, 2009 update.

[2] Initial Effective date of January 1, 2007.

[3] Initial Effective date of January 1, 2008.

ESTIMATED SOLVENCY RATIO

As requested, we have estimated the solvency ratio as at December 31, 2010. Our calculations are based on an extrapolation of the results of an interim valuation that was conducted as at December 31, 2008. The interim valuation was based on the market value of assets as at December 31, 2008 and liabilities determined as at the same date, using updated actuarial assumptions to reflect the market conditions as at December 31, 2008. The extrapolation is based on expected benefit payments, expected service costs, expected investment returns and the assumption that there have not been any experience gains or losses since December 31, 2008.

The estimated solvency ratio as at December 31, 2010 would be 70% if contributions were made based on the above amortization schedule.

If contributions were made based on Catalyst's requested amortization schedule, as detailed in David Smales' letter from June 2009, the estimated solvency ratio as at December 31, 2010 would be 67%.

CERTIFICATION

In our opinion, for the purpose of determining the schedule of solvency amortization payments presented in this letter and the estimation of solvency ratios as at December 31, 2010, the data are sufficient and reliable, the assumptions are, in aggregate, appropriate and the methods employed are appropriate. This letter has been prepared, and our opinion has been given, in accordance with accepted actuarial practice.

The results shown in this letter are reasonable actuarial results reflecting the actuaries' judgment of future events. However, a different set of results could also be considered reasonable actuarial results since accepted actuarial practice does not prescribe a single "best-estimate" for each assumption. Thus, reasonable results differing from those presented in this letter could have been developed by selecting different assumptions based on a different judgment of future events. Future contribution levels may change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future experience gains or losses. None of these changes have been anticipated at this time, but will be revealed in future actuarial valuations.

The information contained in this letter was prepared for Catalyst Paper Corporation, for its internal use and for filing with the Financial Institutions Commission of BC, in connection with Towers Perrin's actuarial valuation of the Plan. This letter is not intended or necessarily suited for other purposes. Further distribution of all or part of this report to other parties (except where such distribution is required by applicable legislation) or other use of this report is expressly prohibited without Towers Perrin's prior written consent.

* * * * *

TOWERS PERRIN

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Towers Perrin Inc.

Sincerely,

Bernard Mercier, FCIA	August 24, 2009
	Date
Michael Wach, FCIA	August 24, 2009
	Date

cc: David Smales — Catalyst Paper Corporation

TOWERS PERRIN Bernard N Mercier

09/04/2009 02:41 PM

To "Koomson, Abraham FIN:EX" <Abraham.Koomson@ficombc.ca>
cc david.smales@catalystpaper.com, "Peters, Michael J FIN:EX" <Michael.Peters@ficombc.ca>, peter.staiger@catalystpaper.com, VNC Central Files@TP, Jaime Omichinski/Towers Perrin@TP
bcc Cindy Chen/Towers Perrin
Subject RE: Catalyst Paper Corporation Pension Plan for Salaried Employees (85400)/Retirement Plan "A" (85994)

Hi Abraham,

I attach the information that you requested. Please call me if you have any questions.

Supplementary Opinion _Solvency Period Extension_Plan A_Update 10yrs.pdf

Supplementary Opinion _Solvency Period Extension_Plan A_Update 15yrs.pdf

Supplementary Opinion _Solvency Period Extension_Update 10yrs.pdf

Supplementary Opinion _Solvency Period Extension_Update 15yrs.pdf

Bernard

Bernard Mercier FCIA, FSA Principal
Towers Perrin HR Services
1100 Melville Street, Suite 1600
Vancouver B.C. V6E 4A6
tel 604.691.1020 fax 604.691.1062
604.691.1070 (Assistant Cindy Chen)
bernard.mercier@towersperrin.com

"Koomson, Abraham FIN:EX" <Abraham.Koomson@ficombc.ca>

"Koomson, Abraham FIN:EX" <Abraham.Koomson@ficombc.ca>

08/25/2009 12:50 PM

To Bernard N Mercier/VNC/Towers Perrin@TP
cc <david.smales@catalystpaper.com>, "Peters, Michael J FIN:EX" <Michael.Peters@ficombc.ca>, <peter.staiger@catalystpaper.com>
Subject RE: Catalyst Paper Corporation Pension Plan for Salaried Employees (85400)/Retirement Plan "A" (85994)

Hi Bernard,

Thank you for the information on the Salaried Employees Plan (85400). I realize however, that you have not provided any information on Retirement Plan "A" as I had requested. Given the level of the estimated solvency ratios based on the payments schedules discussed so far, which you provided in your letter, it may be helpful for you to also look at what the payments would look like with an extension of 5 years and what their comparable ratios would be for both plans.

I would also appreciate receiving a copy of the interim valuation prepared at December 31, 2008. Please give me a call if you want to discuss.

Thanks, Abraham

(604) 953-5412

-----Original Message-----
From: Bernard N Mercier [mailto:bernard.n.mercier@towersperrin.com]
Sent: Monday, August 24, 2009 3:09 PM
To: Koomson, Abraham FIN:EX
Cc: david.smales@catalystpaper.com; Peters, Michael J FIN:EX; peter.staiger@catalystpaper.com
Subject: Re: Catalyst Paper Corporation Pension Plan for Salaried Employees (85400)/Retirement Plan "A" (85994)

Hi Abraham,

The attached letter provides the information requested in your email of August 17, 2009. Please contact me if you have any questions.

Bernard

(See attached file: Supplementary Opinion _Solvency Period Extension_Update.pdf)

Bernard Mercier FCIA, FSA Principal
Towers Perrin HR Services
1100 Melville Street, Suite 1600
Vancouver B.C. V6E 4A6
tel 604.691.1020 fax 604.691.1062
604.691.1070 (Assistant Cindy Chen)
bernard.mercier@towersperrin.com

To	"Koomson, Abraham FIN:EX" <Abraham.Koomson@ficombc.ca>	Bernard N Mercier/VNC/Towers Perrin@TP
cc		<david.smales@catalystpaper.com>,

"Peters, Michael J FIN:EX"

<Michael.Peters@ficombc.ca>

08/17/2009

08:42 AM

Subject

Pension

(85994)

Catalyst Paper Corporation

Plan for Salaried Employees

(85400)/Retirement Plan "A"

Hi Bernard,

As per our quick discussion on Friday, can you please provide us with revised schedules of solvency amortization payments for the solvency deficiencies with effective dates of Jan 1, 2007 and Jan 1, 2008 using the present values of payments at June 30, 2009. This is based on the presumption that all special payments up to June 30, 2009 have been made.
Please assume the same month of last payments as in your application. This calculation assumes there will be no cessation in special payments from June 30, 2009.

Please provide us with a projected solvency ratio at December 2010 based on the original schedule in your application and another based on the requested schedule. Your calculations should reflect the return on plan assets as indicated in the 2008 Audited Financial Statement for Catalyst.

To expedite the review of your application, please provide this information to us by Friday August 21, 2009.

Contact me if you require clarification or you have any questions about your application.

Regards,

Abraham Koomson
Senior Analyst, Pensions
Financial Institutions Commission, British Columbia Phone #: 604 953-5412 Fax #: 604 953-5301

NOTICE: This communication may contain confidential, proprietary or legally privileged information. It is intended only for the person(s) to whom it is addressed. If you are not an intended recipient, you may not use, read, retransmit, disseminate or take any action in reliance upon it. Please notify the sender that you have received it in error and immediately delete the entire communication, including any attachments. Towers Perrin does not encrypt and cannot ensure the confidentiality or integrity of external e-mail communications and, therefore, cannot be responsible for any unauthorized access, disclosure, use or tampering that may occur during transmission. This communication is not intended to create or modify any obligation, contract or warranty of Towers Perrin, unless the firm clearly expresses such an intent.

Editorial Review:	Not Reviewed
Technical Review:	Not Reviewed
Consulting Review:	Not Reviewed
Project # / Client #:	Not Available

TOWERS PERRIN

September 4, 2009

Mr. Abraham Koomson
Financial Institutions Commission of BC
1200-13450 102nd Avenue
Surrey, BC
V3T 5X3

Dear Mr. Koomson:

CATALYST PAPER CORPORATION RETIREMENT PLAN FOR SALARIED EMPLOYEES - REGISTRATION NO. P085400

This letter is in response to your email of August 17, 2009 regarding the application for an extension of the solvency amortization period for the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Plan").

BACKGROUND

An actuarial valuation for the plan was performed as at December 31, 2007 and was filed with the Financial Institutions Commission of BC under correspondence dated December 19, 2008. The actuarial valuation revealed a going concern funding deficit of $12,605,214 and a solvency deficit of $44,651,428 as at December 31, 2007. The company has been contributing in accordance with the contribution requirements outlined in the December 31, 2007 report in respect of the defined benefit normal actuarial cost and the going concern and solvency deficits.

ACTUARIAL BASIS, MEMBERSHIP DATA AND PLAN PROVISIONS

The membership data, actuarial assumptions and methods and plan provisions are the same as those used for the actuarial valuation as at December 31, 2007. The discount rate used for determining the solvency amortization payments is 4.50% per year. Further details on the actuarial basis, the membership data and the plan provisions can be found in Appendix B, Appendix C and Appendix D of the December 31, 2007 valuation report, respectively.

Mr. A. Koomson
September 4, 2009
Page 2.

TOWERS PERRIN

AMORTIZATION SCHEDULES

As disclosed in the December 31, 2007 valuation report, the statutory solvency deficiency revealed at December 31, 2007 together with the remaining statutory solvency deficiencies from the previous actuarial valuations must be liquidated by the employer amortization payments at least equal to the amount, payable quarterly in arrears, and for the periods set forth below in order to comply with the Regulation to the Pension Benefits Standards Act (British Columbia):

Five-Year Amortization Schedule as at December 31, 2007

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2004	Dec. 2018	Dec. 2012	$ 1,582,137	$ 7,061,677
Solvency	Jan. 1, 2004	Dec. 2008	Dec. 2008	6,969,898	6,781,279
Solvency	Jan. 1, 2007	Dec. 2011	Dec. 2011	3,881,782	14,158,839
Solvency	Jan. 1, 2008	Dec. 2012	Dec. 2012	3,730,276	16,649,633
Total				$ 16,164,093	$ 44,651,428

As per FICOM's request, we have determined the present value of the remaining amortization schedule as at July 1, 2009 as set forth below:

Five-Year Amortization Schedule as at July 1, 2009

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2004	Dec. 2018	Dec. 2012	$ 1,582,137	$ 5,103,831
Solvency	Jan. 1, 2004	Dec. 2008	Dec. 2008	0	0
Solvency	Jan. 1, 2007	Dec. 2011	Dec. 2011	3,881,782	9,139,094
Solvency	Jan. 1, 2008	Dec. 2012	Dec. 2012	3,730,276	12,033,534
Total				$ 9,194,195	$ 26,276,459

As per FICOM's request, we have determined the amortization schedule required to liquidate the present value of the amortization payments as of July 1, 2009 of $26,276,459 over a period of 15 years following the effective date of each deficit as shown below:

Fifteen-Year Amortization Schedule as at July 1, 2009

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2004	Dec. 2018	Dec. 2018	$ 1,582,137	$ 12,216,119
Solvency [1]	Jan. 1, 2004	Dec. 2008	Dec. 2008	-	-
Solvency [2]	Jul. 1, 2009	Dec. 2021	Dec. 2021	955,867	9,139,094
Solvency [3]	Jul. 1, 2009	Dec. 2022	Dec. 2022	486,180	4,921,246
Total				$ 3,024,184	$ 26,276,459

Notes:

1 The solvency schedule effective January 1, 2004 has been paid in full as of the date of this letter and therefore, this schedule has not been included for the July 1, 2009 update.

2 Initial Effective date of January 1, 2007.

3 Initial Effective date of January 1, 2008.

ESTIMATED SOLVENCY RATIO

As requested, we have estimated the solvency ratio as at December 31, 2010. Our calculations are based on an extrapolation of the results of an interim valuation that was conducted as at December 31, 2008. The interim valuation was based on the market value of assets as at December 31, 2008 and liabilities determined as at the same date, using updated actuarial assumptions to reflect the market conditions as at December 31, 2008.

The extrapolation is based on the market value of assets as of July 31, 2009, expected benefit payments, expected service costs, expected investment returns and the assumption that there have been any liability or assets gains or losses since December 31, 2008 and July 31, 2009 respectively. The estimated solvency ratios with and without solvency relief are shown below:

Date	*With Funding Relief*	*Without Funding Relief*
December 31, 2007	85.3%	85.3%
December 31, 2008	70.2%	70.2%
December 31, 2009	72.7%	73.8%
December 31, 2010	72.5%	75.6%

CERTIFICATION

In our opinion, for the purpose of determining the schedule of solvency amortization payments presented in this letter and the estimation of solvency ratios as at December 31, 2009 and December 31, 2010, the data are sufficient and reliable, the assumptions are, in aggregate, appropriate and the methods employed are appropriate. This letter has been prepared, and our opinion has been given, in accordance with accepted actuarial practice.

The results shown in this letter are reasonable actuarial results reflecting the actuaries' judgment of future events. However, a different set of results could also be considered reasonable actuarial results since accepted actuarial practice does not prescribe a single "best-estimate" for each assumption. Thus, reasonable results differing from those presented in this letter could have been developed by selecting different assumptions based on a different judgment of future events. Future contribution levels may change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future experience gains or losses. None of these changes have been anticipated at this time, but will be revealed in future actuarial valuations.

The information contained in this letter was prepared for Catalyst Paper Corporation, for its internal use and for filing with the Financial Institutions Commission of BC, in connection with Towers Perrin's actuarial valuation of the Plan. This letter is not intended or necessarily suited for other purposes. Further distribution of all or part of this report to other parties (except where such distribution is required by applicable legislation) or other use of this report is expressly prohibited without Towers Perrin's prior written consent.

* * * * *

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TOWERS
PERRIN

Towers Perrin Inc.

Sincerely,

Bernard Mercier, FCIA — September 4, 2009
Date

Michael Wach, FCIA — September 4, 2009
Date

cc: David Smales — Catalyst Paper Corporation

TOWERS PERRIN

September 4, 2009

Mr. Abraham Koomson
Financial Institutions Commission of BC
1200-13450 102nd Avenue
Surrey, BC
V3T 5X3

Dear Mr. Koomson:

CATALYST PAPER CORPORATION RETIREMENT PLAN FOR SALARIED EMPLOYEES - REGISTRATION NO. P085400

This letter is in response to your email of August 25, 2009 regarding the application for an extension of the solvency amortization period for the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Plan").

BACKGROUND

An actuarial valuation for the plan was performed as at December 31, 2007 and was filed with the Financial Institutions Commission of BC under correspondence dated December 19, 2008. The actuarial valuation revealed a going concern funding deficit of $12,605,214 and a solvency deficit of $44,651,428 as at December 31, 2007. The company has been contributing in accordance with the contribution requirements outlined in the December 31, 2007 report in respect of the defined benefit normal actuarial cost and the going concern and solvency deficits.

ACTUARIAL BASIS, MEMBERSHIP DATA AND PLAN PROVISIONS

The membership data, actuarial assumptions and methods and plan provisions are the same as those used for the actuarial valuation as at December 31, 2007. The discount rate used for determining the solvency amortization payments is 4.50% per year. Further details on the actuarial basis, the membership data and the plan provisions can be found in Appendix B, Appendix C and Appendix D of the December 31, 2007 valuation report, respectively.

AMORTIZATION SCHEDULES

As disclosed in the December 31, 2007 valuation report, the statutory solvency deficiency revealed at December 31, 2007 together with the remaining statutory solvency deficiencies from the previous actuarial valuations must be liquidated by the employer amortization payments at least equal to the amount, payable quarterly in arrears, and for the periods set forth below in order to comply with the Regulation to the Pension Benefits Standards Act (British Columbia):

Five-Year Amortization Schedule as at December 31, 2007

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2004	Dec. 2018	Dec. 2012	$ 1,582,137	$ 7,061,677
Solvency	Jan. 1, 2004	Dec. 2008	Dec. 2008	6,969,898	6,781,279
Solvency	Jan. 1, 2007	Dec. 2011	Dec. 2011	3,881,782	14,158,839
Solvency	Jan. 1, 2008	Dec. 2012	Dec. 2012	3,730,276	16,649,633
Total				$ 16,164,093	$ 44,651,428

As per FICOM's request, we have determined the present value of the remaining amortization schedule as at July 1, 2009 as set forth below:

Five-Year Amortization Schedule as at July 1, 2009

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2004	Dec. 2018	Dec. 2012	$ 1,582,137	$ 5,103,831
Solvency	Jan. 1, 2004	Dec. 2008	Dec. 2008	0	0
Solvency	Jan. 1, 2007	Dec. 2011	Dec. 2011	3,881,782	9,139,094
Solvency	Jan. 1, 2008	Dec. 2012	Dec. 2012	3,730,276	12,033,534
Total				$ 9,194,195	$ 26,276,459

As per FICOM's request, we have determined the amortization schedule required to liquidate the present value of the amortization payments as of July 1, 2009 of $26,276,459 over a period of 10 years following the effective date of each deficit as shown below:

Ten-Year Amortization Schedule as at July 1, 2009

Type of payment	*Effective date*	*Month of last payment*	*Month of last payment recognized in solvency present value*	*Annual amortization payment*	*Present value on solvency basis (at 4.50% p.a.)*
Going concern	Jan. 1, 2004	Dec. 2017	Dec. 2017	$ 1,582,137	$ 11,157,253
Solvency [1]	Jan. 1, 2004	Dec. 2008	Dec. 2008	-	-
Solvency [2]	Jul. 1, 2009	Dec. 2016	Dec. 2016	1,438,631	9,139,094
Solvency [3]	Jul. 1, 2009	Dec. 2017	Dec. 2017	848,001	5,980,112
Total				$ 3,868,769	$ 26,276,459

Notes:

[1] The solvency schedule effective January 1, 2004 has been paid in full as of the date of this letter and therefore, this schedule has not been included for the July 1, 2009 update.

[2] Initial Effective date of January 1, 2007.

[3] Initial Effective date of January 1, 2008.

ESTIMATED SOLVENCY RATIO

As requested, we have estimated the solvency ratio as at December 31, 2010. Our calculations are based on an extrapolation of the results of an interim valuation that was conducted as at December 31, 2008. The interim valuation was based on the market value of assets as at December 31, 2008 and liabilities determined as at the same date, using updated actuarial assumptions to reflect the market conditions as at December 31, 2008.

The extrapolation is based on the market value of assets as of July 31, 2009, expected benefit payments, expected service costs, expected investment returns and the assumption that there have been any liability or assets gains or losses since December 31, 2008 and July 31, 2009 respectively. The estimated solvency ratios with and without solvency relief are shown below:

Date	*With Funding Relief*	*Without Funding Relief*
December 31, 2007	85.3%	85.3%
December 31, 2008	70.2%	70.2%
December 31, 2009	72.8%	73.8%
December 31, 2010	73.0%	75.6%

CERTIFICATION

In our opinion, for the purpose of determining the schedule of solvency amortization payments presented in this letter and the estimation of solvency ratios as at December 31, 2009 and December 31, 2010, the data are sufficient and reliable, the assumptions are, in aggregate, appropriate and the methods employed are appropriate. This letter has been prepared, and our opinion has been given, in accordance with accepted actuarial practice.

The results shown in this letter are reasonable actuarial results reflecting the actuaries' judgment of future events. However, a different set of results could also be considered reasonable actuarial results since accepted actuarial practice does not prescribe a single "best-estimate" for each assumption. Thus, reasonable results differing from those presented in this letter could have been developed by selecting different assumptions based on a different judgment of future events. Future contribution levels may change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future experience gains or losses. None of these changes have been anticipated at this time, but will be revealed in future actuarial valuations.

The information contained in this letter was prepared for Catalyst Paper Corporation, for its internal use and for filing with the Financial Institutions Commission of BC, in connection with Towers Perrin's actuarial valuation of the Plan. This letter is not intended or necessarily suited for other purposes. Further distribution of all or part of this report to other parties (except where such distribution is required by applicable legislation) or other use of this report is expressly prohibited without Towers Perrin's prior written consent.

* * * * *

TOWERS
PERRIN

Towers Perrin Inc.

Sincerely,

Bernard Mercier, FCIA	September 4, 2009 Date
Michael Wach, FCIA	September 4, 2009 Date

cc: David Smales — Catalyst Paper Corporation

BRITISH COLUMBIA
The Best Place on Earth

Financial Institutions
Commission

October 05, 2009

Plan Number: P085400
P085994

Mr. David Smales
Vice President, Finance and CFO
Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, BC V7B 1C3

Dear Mr. Smales:

Re: Catalyst Paper Corporation Retirement Plan for Salaried Employees (P085400); and Catalyst Paper Corporation Retirement Plan "A" (P085994) (the "Plans")

We acknowledge receipt of your letter of June 12, 2009, requesting an extension of the time period required for solvency payments under the *Pension Benefits Standards Act* (the "Act") for the above-noted pension plans.

You requested an extension of an additional 10 years to the 5 years required to fund the solvency deficiencies, resulting in a solvency amortization period of 15 years. You further requested that this extension take effect retroactively to the actuarial valuation results as at December 31, 2007.

Section 6 of the Act provides the Superintendent with authority to extend the time within which solvency payments are required to be made to amortize a solvency deficiency. The Act, however, does not provide the Superintendent with the authority to vary the character of payments already made to the fund to amortize solvency deficiencies.

For the purposes of section 6 of the Act, I hereby grant a 5-year extension to the time within which solvency payments for the above plans must be made to liquidate current solvency deficiencies. The revised amortization payments will be effective July 1, 2009. Please refer to attached schedule of statutory payments.

.../2

- Superintendent of Financial Institutions
- Superintendent of Pensions
- Superintendent of Real Estate
- Registrar of Mortgage Brokers

1200 – 13450 102nd Avenue
Surrey, BC V3T 5X3
Telephone: 604 953-5300
Facsimile: 604 953-5301
www.fic.gov.bc.ca

Further to section 6 of the Act, this consent is granted on condition that:

- You disclose the extension of the solvency amortization period to members, including retired and deferred members at the next available opportunity and for each year that the extension is in place.

- The solvency extension granted will be subject to review at the next actuarial valuation.

My staff requested and received from yourself, as well as your actuary, further information to enable us to make a determination of whether your application meets the need to balance the needs of your company as well as provide security to the benefits of your members. Your actuary provided us on your behalf revised amortization schedules based on the present value of special payments as at June 30, 2009 for both a 5-year and 10-year extension. From your audited financial statements provided, as well as the submissions to support your application, you have explained the challenges facing your company as well as the initiatives your company is taking to meet these challenges.

As much as I appreciate the challenges your company is facing, a situation like this also presents considerable risk to the security of benefits of your plan members. I have therefore tried to provide a balance between the financial challenges of your company and securing the benefits accrued by members of your plans.

Thank you for working with my staff to develop an option which recognizes the need for a balance between the security of benefits of the plan members as well as the financial challenges of your company.

Please contact Abraham Koomson at 604 953-5412 or Abraham.Koomson@ficombc.ca if you have any questions concerning this matter.

Yours truly,

W. Alan Clark

W. Alan Clark
Superintendent of Pensions

Enclosure

pc: Mr. Bernard Mercier, Towers Perrin

Amortization of Statutory Solvency Deficiency

Retirement Plan for Salaried Employees (P085400)

Type of Payment	Effective Date	Month of Last Payment	Annual Amortization Payment	Present Value on Solvency Basis (@ 4.5% p.a)
Solvency	July 01, 2009	December 2016	$ 1,438,631	$ 9,139,094
Solvency	July 01, 2009	December 2017	$ 848,001	$ 5,980,112
Total			$ 2,286,632	$ 15,119,206

Retirement Plan "A" (P085994)

Type of Payment	Effective Date	Month of Last Payment	Annual Amortization Payment	Present Value on Solvency Basis (@ 4.5% p.a)
Solvency	July 01, 2009	December 2016	$ 159,043	$ 1,010,341
Solvency	July 01, 2009	December 2017	$ 26,632	$ 187,807
Total			$ 185,675	$ 1,198,148

TOWERS
PERRIN

December 9, 2009

Ms. Sandra Jones
Pension Analyst
Financial Institutions Commission of BC
1200 - 13450 102nd Avenue
Surrey, BC
V3T 5X3

Dear Ms. Jones:

CATALYST PAPER CORPORATION RETIREMENT PLAN FOR SALARIED EMPLOYEES
PLAN NUMBER P085499

As discussed in our phone conversation last month, this letter will serve as an advance notice of the upcoming changes to the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Plan").

The Board of Directors of Catalyst Paper Corporation have resolved, that effective January 1, 2010, the Plan will be amended to eliminate future accruals of service under the defined benefit provision of the Plan (the "DB Plan"). For service after December 31, 2009, members will accrue benefits under the defined contribution provision of the Plan (the "DC Plan"). Affected DB Plan members will retain their DB Plan pension for service prior to December 31, 2009, and their DB Plan pension will reflect their best average earning at the date of actual termination of employment, retirement, or death as applicable. This change will apply to all remaining active DB plan members on January 1, 2010 with the exception of a group of employees who are on salary continuance and a group of employees who are on working notice, for whom future DB accruals will continue until the end of their severance or working notice period.

The Company has also resolved to change the DC contribution rate from 7.0% to 5.0% of earnings effective January 1, 2010. This change will apply to all salaried employees with the exception of a group of employees who are on salary continuance and a group of employees who are on working notice, for whom the employer DC contribution rate will remain at 7.0%

Towers Perrin Inc.
Bernard Mercier FCIA, FSA Principal
1100 Melville Street, Suite 1600, Vancouver, B.C. V6E 4A6 tel 604.691.1020 fax 604.691.1062 bernard.n.mercier@towersperrin.com

TOWERS
PERRIN

Later in 2010, we will forward the formal amendment and a restated plan document which will reflect the changes described in this letter.

Sincerely,

Bernard Mercier

Enclosures

cc: Mr. John Belland — Catalyst Paper Corporation
Mr. Steve Bonnifero — Catalyst Paper Corporation
Ms. Valerie Seager — Catalyst Paper Corporation
Mr. Peter Staiger — Catalyst Paper Corporation

BRITISH COLUMBIA
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Commission

December 2, 2010
Plan Number: P085400-1

Mr. Peter Staiger
Catalyst Paper Corporation
3600 Lysander Lane
Richmond, BC V7B 1C3

Dear Mr. Staiger:

Re: Actuarial Valuation Report as at December 31, 2010
Catalyst Paper Corporation Retirement Plan for Salaried Employees

Our records indicate that the next actuarial valuation report for your defined benefit pension plan is to be prepared as at **December 31, 2010**. If this is not correct, please contact our office.

We wish to remind you that, as required by section 7(2)(b) of the Pension Benefits Standards Regulation ("the Regulation"), a valuation is required to be filed within 270 days of the review date. This means that a valuation prepared as at **December 31, 2010** must be filed with our office no later than **September 27, 2011.**

The only exception to the filing deadline is where the Superintendent has granted an extension to the deadline pursuant to section 6 of the *Pension Benefits Standards Act* ("the Act"), which reads as follows:

> If the superintendent considers that there are **extenuating reasons** for a person's failure to do anything within a period or before a time limit imposed by this Act, the superintendent may, on receipt of a written request and by written notice to the applicant, extend the period within which that thing must be done to a time and subject to conditions that may be specified in the notice. (emphasis added)

Extenuating reasons do not include items such as workload issues at actuarial firms, or the fact that a board of trustees meeting is not scheduled until after the filing deadline.

It is our expectation that all valuations prepared as at **December 31, 2010** will be submitted on or before **September 27, 2011.**

- Superintendent of Financial Institutions
- Superintendent of Pensions
- Superintendent of Real Estate
- Registrar of Mortgage Brokers

1200 -13450 102nd Avenue
Surrey, BC V3T 5X3
Telephone: 604 953-5300
Facsimile: 604 953-5301
www.fic.gov.bc.ca

If you have any questions concerning this matter, please contact the Senior Analyst assigned to your plan.

Yours truly,

Michael J. Peters
Executive Director, Pensions

TOWERS WATSON

1100 Melville Street
Suite 1600
Vancouver, B.C. V6E 4A6
Canada

T +1 604 691 1000

towerswatson.com

July 26, 2011

Abraham Koomson
Senior Analyst, Pensions
Financial Institutions Commission, British Columbia
1200-13450 102nd Avenue
Surrey, BC V3T 5X3

Dear Mr. Koomson:

Catalyst Paper Corporation Retirement Plan "A" - Registration No. P085994

This letter has been prepared on behalf of Catalyst Paper Corporation for filing with the Financial Institutions Commission of BC. The purpose of the letter is to provide an actuarial certification of the schedule of solvency amortization payments resulting from an extension of the solvency amortization period from 5 years to 15 years for the Catalyst Paper Corporation Retirement Plan "A" (the "Plan").

Background

An actuarial valuation for the plan was performed as at December 31, 2010. The valuation report as at December 31, 2010 is required to be formally required filed with your office by September 26, 2011. Advance copies can be provided to you in conjunction with the Supplementary Actuarial Opinion upon request. The actuarial valuation revealed a going concern funding deficit of $514,725 and a solvency deficit of $3,238,464 as at December 31, 2010. The company has been contributing in accordance with the contribution requirements outlined in the December 31, 2007 report (the most recently filed report) in respect of the going concern and solvency deficits.

The Superintendent of Pensions issued Information Bulletin PEN-09-001 in January 2009 providing guidance to plan administrators who are considering making solvency extension requests. In accordance with Catalyst Paper Corporation's application to the Superintendent of Pensions to extend the time period required for solvency payments under Section 6 of the Pension Benefits Standards Act (British Columbia) and the application requirements specified in Information Bulletin PEN-09-001, this letter provides information on the revised schedule of payments sufficient to fully amortize the solvency deficiency over the extended period.

Actuarial Basis, Membership Data and Plan Provisions

The membership data, actuarial assumptions and methods and plan provisions are the same as those used for the actuarial valuation as at December 31, 2010. The discount rate used for determining the solvency amortization payments is 4.50% per year. Further details on the actuarial basis, the membership data and the plan provisions can be found in Appendix B, Appendix C and Appendix D of the December 31, 2010 valuation report, respectively.

Amortization Schedules

As disclosed in the December 31, 2010 valuation report, the statutory solvency deficiency revealed at December 31, 2010 together with the remaining statutory solvency deficiencies from the previous actuarial valuations must be liquidated by the employer amortization payments at least equal to the amount, payable quarterly in arrears, and for the periods set forth below in order to comply with the Regulation to the Pension Benefits Standards Act (British Columbia):

Five-Year Amortization Schedules as at December 31, 2010

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2002	Mar. 2016	$ 115,111	$ 534,319
Solvency	Jul. 1, 2009	Dec. 2016	159,043	834,040
Solvency	Jul. 1, 2009	Dec. 2017	26,632	159,558
Solvency	Jan. 1, 2011	Dec. 2015	383,240	1,710,547
Total			$ 684,026	$ 3,238,464

Further to Catalyst Paper Corporation's application to the Superintendent to extend the solvency amortization period from 5 years to 15 years, the employer contributions, payable quarterly in arrears, required to liquidate the statutory solvency deficiency revealed at December 31, 2010 together with the remaining unfunded actuarial liability and statutory solvency deficiencies from the previous actuarial valuations are as follows:

Fifteen-Year Amortization Schedules as at December 31, 2010

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2002	Mar. 2016	$ 115,111	$ 534,319
Solvency	Jul. 1, 2009	Dec. 2016	159,043	834,040
Solvency	Jul. 1, 2009	Dec. 2017	26,632	159,558
Solvency	Jan. 1, 2011	Dec. 2025	156,656	1,710,547
Total			$ 457,442	$ 3,238,464

Certification

In our opinion, for the purpose of determining the schedule of solvency amortization payments resulting from the extension of the solvency amortization period from 5 years to 15 years, the data are sufficient and reliable, the assumptions are, in aggregate, appropriate and the methods employed are appropriate. This letter has been prepared, and our opinion has been given, in accordance with accepted actuarial practice in Canada.

If Catalyst Paper Corporation's application to extend the solvency amortization period from 5 years to 15 years is approved by the Superintendent of Pensions:

- The employer contributions, payable quarterly in arrears, required to liquidate the statutory solvency deficiency revealed at December 31, 2010 together with the remaining unfunded actuarial liability and statutory solvency deficiencies from the previous actuarial valuations are as follows:

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2002	Mar. 2016	$ 115,111	$ 534,319
Solvency	Jul. 1, 2009	Dec. 2016	159,043	834,040
Solvency	Jul. 1, 2009	Dec. 2017	26,632	159,558
Solvency	Jan. 1, 2011	Dec. 2025	156,656	1,710,547
Total			$ 457,442	$ 3,238,464

- The next actuarial valuation of the plan should be performed with an effective date not later than December 31, 2013.

The results shown in this letter are reasonable actuarial results reflecting the actuaries' judgment of future events. However, a different set of results could also be considered reasonable actuarial results since accepted actuarial practice does not prescribe a single "best-estimate" for each assumption. Thus, reasonable results differing from those presented in this letter could have been developed by selecting different assumptions based on a different judgment of future events. Future contribution levels may change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future experience gains or losses. None of these changes have been anticipated at this time, but will be revealed in future actuarial valuations.

The information contained in this letter was prepared for Catalyst Paper Corporation, for its internal use and for filing with the Financial Institutions Commission of BC, in connection with Towers Watson's actuarial valuation of the Plan. This letter is not intended or necessarily suited for other purposes. Further distribution of all or part of this report to other parties (except where such distribution is required by applicable legislation) or other use of this report is expressly prohibited without Towers Watson's prior written consent.

Towers Watson Canada Inc.

Sincerely,

Bernard Mercier
FCIA

Jaime Omichinski
FCIA

Vancouver, BC
July 26, 2011

cc: Brian Baarda – Catalyst Paper Corporation

TOWERS WATSON

1100 Melville Street
Suite 1600
Vancouver, B.C. V6E 4A6
Canada

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July 26, 2011

Abraham Koomson
Senior Analyst, Pensions
Financial Institutions Commission, British Columbia
1200-13450 102nd Avenue
Surrey, BC V3T 5X3

Dear Mr. Koomson:

Catalyst Paper Corporation Retirement Plan for Salaried Employees - Registration No. P085400

This letter has been prepared on behalf of Catalyst Paper Corporation for filing with the Financial Institutions Commission of BC. The purpose of the letter is to provide an actuarial certification of the schedule of solvency amortization payments resulting from an extension of the solvency amortization period from 5 years to 15 years for the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Plan"). This letter addresses the defined benefit component of the Plan only.

Background

An actuarial valuation for the plan was performed as at December 31, 2010. The valuation report as at December 31, 2010 is required to be formally required filed with your office by September 26, 2011. Advance copies can be provided to you in conjunction with the Supplementary Actuarial Opinion upon request. The actuarial valuation revealed a going concern funding deficit of $23,327,516 and a solvency deficit of $73,482,585 as at December 31, 2010. The company has been contributing in accordance with the contribution requirements outlined in the December 31, 2007 report (the most recently filed report) in respect of the defined benefit normal actuarial cost and the going concern and solvency deficits.

The Superintendent of Pensions issued Information Bulletin PEN-09-001 in January 2009 providing guidance to plan administrators who are considering making solvency extension requests. In accordance with Catalyst Paper Corporation's application to the Superintendent of Pensions to extend the time period required for solvency payments under Section 6 of the Pension Benefits Standards Act (British Columbia) and the application requirements specified in Information Bulletin PEN-09-001, this letter provides information on the revised schedule of payments sufficient to fully amortize the solvency deficiency over the extended period.

Actuarial Basis, Membership Data and Plan Provisions

The membership data, actuarial assumptions and methods and plan provisions are the same as those used for the actuarial valuation as at December 31, 2010. The discount rate used for determining the solvency amortization payments is 4.50% per year. Further details on the actuarial basis, the membership data and the plan provisions can be found in Appendix B, Appendix C and Appendix D of the December 31, 2010 valuation report, respectively.

Amortization Schedules

As disclosed in the December 31, 2010 valuation report, the statutory solvency deficiency revealed at December 31, 2010 together with the remaining statutory solvency deficiencies from the previous actuarial valuations must be liquidated by the employer amortization payments at least equal to the amount, payable quarterly in arrears, and for the periods set forth below in order to comply with the Regulation to the Pension Benefits Standards Act (British Columbia):

Five-Year Amortization Schedules as at December 31, 2010

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2004	Dec. 2017 [1]	$ 1,582,137	$ 9,478,944
Going concern	Jan. 1, 2011	Dec. 2015	1,338,057	5,972,257
Solvency	Jul. 1, 2009	Dec. 2016	1,438,631	7,544,344
Solvency	Jul. 1, 2009	Dec. 2017	848,001	5,080,568
Solvency	Jan. 1, 2011	Dec. 2015	10,173,118	45,406,472
Total			$ 15,379,944	$ 73,482,585

[1] The scheduled end date for the going concern amortization schedule established January 1, 2004 is December 31, 2018.

Further to Catalyst Paper Corporation's application to the Superintendent to extend the solvency amortization period from 5 years to 15 years, the employer contributions, payable quarterly in arrears, required to liquidate the statutory solvency deficiency revealed at December 31, 2010 together with the remaining unfunded actuarial liability and statutory solvency deficiencies from the previous actuarial valuations are as follows:

Fifteen-Year Amortization Schedules as at December 31, 2010

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2004	Dec. 2018	$ 1,582,137	$ 10,610,081
Going concern	Jan. 1, 2011	Dec. 2025	1,338,057	14,610,402
Solvency	Jul. 1, 2009	Dec. 2016	1,438,631	7,544,344
Solvency	Jul. 1, 2009	Dec. 2017	848,001	5,080,568
Solvency	Jan. 1, 2011	Dec. 2025	3,263,744	35,637,190
Total			$ 8,470,570	$ 73,482,585

Certification

In our opinion, for the purpose of determining the schedule of solvency amortization payments resulting from the extension of the solvency amortization period from 5 years to 15 years, the data are sufficient and reliable, the assumptions are, in aggregate, appropriate and the methods employed are appropriate.

This letter has been prepared, and our opinion has been given, in accordance with accepted actuarial practice in Canada.

If Catalyst Paper Corporation's application to extend the solvency amortization period from 5 years to 15 years is approved by the Superintendent of Pensions:

- The employer contributions, payable quarterly in arrears, required to liquidate the statutory solvency deficiency revealed at December 31, 2010 together with the remaining unfunded actuarial liability and statutory solvency deficiencies from the previous actuarial valuations are as follows:

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2004	Dec. 2018	$ 1,582,137	$ 10,610,081
Going concern	Jan. 1, 2011	Dec. 2025	1,338,057	14,610,402
Solvency	Jul. 1, 2009	Dec. 2016	1,438,631	7,544,344
Solvency	Jul. 1, 2009	Dec. 2017	848,001	5,080,568
Solvency	Jan. 1, 2011	Dec. 2025	3,263,744	35,637,190
Total			$ 8,470,570	$ 73,482,585

- The employer defined benefit normal actuarial cost contributions should continue to be made in accordance with the valuation report as at December 31, 2010.

- The next actuarial valuation of the plan should be performed with an effective date not later than December 31, 2013.

The results shown in this letter are reasonable actuarial results reflecting the actuaries' judgment of future events. However, a different set of results could also be considered reasonable actuarial results since accepted actuarial practice does not prescribe a single "best-estimate" for each assumption. Thus, reasonable results differing from those presented in this letter could have been developed by selecting different assumptions based on a different judgment of future events. Future contribution levels may change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future experience gains or losses. None of these changes have been anticipated at this time, but will be revealed in future actuarial valuations.

The information contained in this letter was prepared for Catalyst Paper Corporation, for its internal use and for filing with the Financial Institutions Commission of BC, in connection with Towers Watson's actuarial valuation of the Plan. This letter is not intended or necessarily suited for other purposes. Further distribution of all or part of this report to other parties (except where such distribution is required by applicable legislation) or other use of this report is expressly prohibited without Towers Watson's prior written consent.

Towers Watson Canada Inc.

Sincerely,

Bernard Mercier
FCIA

Jaime Omichinski
FCIA

Vancouver, BC
July 26, 2011

cc: Brian Baarda – Catalyst Paper Corporation

ASSET SERVICING | CIBC MELLON

July 27, 2011

Peter Staiger
Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, BC
V7B 1C3

Dear Peter:

CATALYST PAPER CORPORATION RETIREMENT PLAN FOR SALARIED EMPLOYEES – CIBC MELLON ACCOUNT FCLF4415002

As requested, the purpose of the letter is to provide information on the remittance of employer contributions to the defined benefit provision of the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Plan") fund in respect of each of the past three years. The timing and amount of these remittances are as follows:

Employer Contributions in Respect of Calendar Year 2008

Time Period	*Date of Remittance*	*Normal Cost*	*Going Concern Amortization*	*Solvency Amortization*	*Total Contribution*
1st Quarter 2008	April 2008	$ 631,105	$ 488,972	$ 2,712,922	$ 3,832,999
2nd Quarter 2008	July 2008	631,105	488,972	2,712,922	3,832,999
3rd Quarter 2008	October 2008	631,105	488,972	2,712,922	3,832,999
4th Quarter 2008	January 2009	507,702	395,534	3,645,489	4,548,725
Adjustment required due to filing of new valuation	December 2008	6,986	(280,314)	2,797,707	2,524,379
Total Remitted		$ 2,408,003	$ 1,582,136	$ 14,581,962	$ 18,572,101

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Employer Contributions in Respect of Calendar Year 2009

Time Period	*Date of Remittance*	*Normal Cost*	*Going Concern Amortization*	*Solvency Amortization*	*Total Contribution*
1st Quarter 2009	April 2009	$ 600,255	$ 395,534	$ 1,903,015	2,898,804
2nd Quarter 2009	September 2009	600,255	395,534	1,903,015	2,898,804
3rd Quarter 2009	October 2009	600,255	395,534	571,658	1,567,447
4th Quarter 2009	January 2010	(13,756)	395,534	571,658	953,436
Total Remitted		$ 1,787,009	$ 1,582,136	$ 4,949,346	$ 8,318,491

Employer Contributions in Respect of Calendar Year 2010

Time Period	*Date of Remittance*	*Normal Cost*	*Going Concern Amortization*	*Solvency Amortization*	*Total Contribution*
1st Quarter 2010	April 2010	$ 95,758	$ 395,534	$ 571,658	$ 1,062,950
2nd Quarter 2010	July 2010	95,758	395,534	571,658	1,062,950
3rd Quarter 2010	October 2010	95,758	395,534	571,658	1,062,950
4th Quarter 2010	January 2011	(43,906)	395,534	571,658	923,286
Total Remitted		$ 243,368	$ 1,582,136	$ 2,286,632	$ 4,112,136

Employer Contributions in Respect of Calendar Year 2011

Time Period	*Date of Remittance*	*Normal Cost*	*Going Concern Amortization*	*Solvency Amortization*	*Total Contribution*
1st Quarter 2011	April 2011	$ 7,561	$ 395,534	$ 571,658	$ 974,753

In addition to the above employer defined benefit normal cost and amortization contributions, Catalyst Paper Corporation remitted the following amounts as transfer deficiency payments in the past three years:

- $14,656 remitted in December 2008;

Sincerely,

Margaret Barrett, CIBC Mellon

July 27/11
Date

cc: Brian Baarda – Catalyst Paper Corporation

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Employer Contributions in Respect of Calendar Year 2009

Time Period	*Date of Remittance*	*Going Concern Amortization*	*Solvency Amortization*	*Total Contribution*
1st Quarter 2009	April 2009	$ 28,778	$ 149,732	$ 178,510
2nd Quarter 2009	September 2009	28,778	149,732	178,510
3rd Quarter 2009	October 2009	28,778	46,419	75,197
4th Quarter 2009	January 2010	28,778	46,419	75,197
Total remitted		$ 115,112	$ 392,302	$ 507,414

Employer Contributions in Respect of Calendar Year 2010

Time Period	*Date of Remittance*	*Going Concern Amortization*	*Solvency Amortization*	*Total Contribution*
1st Quarter 2010	April 2010	$ 28,778	$ 46,419	$ 75,197
2nd Quarter 2010	July 2010	28,778	46,418	75,196
3rd Quarter 2010	October 2010	28,778	46,418	75,196
4th Quarter 2010	January 2011	28,778	46,418	75,196
Total remitted		$ 115,112	$ 185,673	$ 300,785

Employer Contributions in Respect of Calendar Year 2011

Time Period	*Date of Remittance*	*Going Concern Amortization*	*Solvency Amortization*	*Total Contribution*
1st Quarter 2011	April 2011	$ 28,778	$ 46,418	$ 75,196

ASSET SERVICING CIBC MELLON

July 27, 2011

Peter Staiger
Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, BC
V7B 1C3

Dear Peter:

CATALYST PAPER CORPORATION RETIREMENT PLAN "A"
CIBC MELLON ACCOUNT FCLF4416002

As requested, the purpose of the letter is to provide information on the remittance of employer contributions to the Catalyst Paper Corporation Retirement Plan "A" fund in respect of each of the past three years. The timing and amount of these remittances are as follows:

Employer Contributions in Respect of Calendar Year 2008

Time Period	*Date of Remittance*	*Going Concern Amortization*	*Solvency Amortization*	*Total Contribution*
1st Quarter 2008	April 2008	$ 43,751	$ 194,287	$ 238,038
2nd Quarter 2008	July 2008	43,751	194,287	238,038
3rd Quarter 2008	October 2008	43,751	194,287	238,038
4th Quarter 2008	January 2009	(16,142)	364,076	347,934
Total remitted		$ 115,111	$ 946,937	$ 1,062,048

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- $40,700 remitted in February 2009; and
- $33,853 remitted in March 2009.

Sincerely,

Margaret Barrett, CIBC Mellon

July 27/11.
Date

cc: Brian Baarda – Catalyst Paper Corporation

Catalyst

Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, British Columbia
Canada V7B 1C3

Tel: 604 247 4400
Fax: 604 247 0512

PRIVATE & CONFIDENTIAL

This application is supplied to FICOM on a confidential basis and contains sensitive commercial and financial information about Catalyst. Disclosure of this information to third parties could significantly impact our competitive position or interfere with our negotiating position with third parties. Please ensure that this information is provided to FICOM personnel only on a need to know basis.

July 27, 2011

Abraham Koomson
Senior Analyst, Pensions
Financial Institutions Commission, British Columbia
1200 - 13450 102nd Avenue
Surrey, BC V3T 5X3

Dear Mr. Koomson:

APPLICATION FOR SOLVENCY EXTENSION
CATALYST PAPER CORPORATION RETIREMENT PLAN FOR SALARIED EMPLOYEES – REGISTRATION NO. P085400
CATALYST PAPER CORPORATION RETIREMENT PLAN "A" – REGISTRATION NO. P085994

Further to Bulletin PEN-09-001, Guidelines for Requests for Solvency Extension for Defined Benefit Pension Plans, please accept this letter as our application to the Superintendent for an extension of the time period required to amortize the statutory solvency deficit as at December 31, 2010 as required under Section 6 of the Pension Benefits Standards Act ("PBSA") for both the Catalyst Retirement Plan for Salaried Employees (the "Salaried Plan") and Catalyst Paper Corporation Retirement Plan "A" ("Plan A").

The Competitive Landscape

Over the last decade, our industry has experienced a continuous decline, punctuated by occasional drops, in North American demand for newsprint and also directory paper - two primary products manufactured in our paper mills. Paper companies such as ours have reduced or idled capacity and focused on improving costs in response. The outlook for these commodity grades is for further declines in demand over the longer term and periodic weakness as North American production or capacity needs to adjust to the reduced demand. Companies or mills who cannot, or whose stakeholders will not allow them to, adapt will be unlikely to survive.

Against this background and since the global economy shifted into recession in late 2008, some of our key competitors succumbed to financial pressures and filed for bankruptcy protection under the applicable courts in the US and or Canada. These competitors include AbitibiBowater, White Birch Paper, SP

Newsprint, St Marys Paper, and Blue Heron Paper. Over the last few years, we have relentlessly pursued cost-cutting opportunities across all aspects of our business and have so far avoided the need to file for bankruptcy protection. Our competitors are starting to emerge from creditor protection financially stronger and positioned to take full advantage of reduced cost and debt levels.

The largest competitor in our industry, AbitibiBowater Inc. was granted very significant solvency funding relief as part of agreements with the provinces of Ontario and Quebec. These agreements set AbitibiBowater's pension funding contribution to a very manageable level over the next 10 years and combined with reduced levels of debt provide a substantial competitive advantage over companies like Catalyst Paper.

We feel it is important to understand the extent of funding relief that has been granted by other jurisdictions and specifically to AbitibiBowater. The summary which follows is based on the information presented in Ontario regulation 196/11 and other documents. The agreements cover 15 pension plans (10 registered in Quebec, 5 in Ontario) covering union, salaried and executive members.

For the period from 2011 to 2020

AbitibiBowater is to contribute, in aggregate in respect of the solvency deficit of these 15 plans, $50 million for each year from 2011 through 2020. Absent the agreements, the funding requirement would be over $150 million per year. The aggregate deficit for the 15 plans is in the order of $1.5 billion. Accordingly, the $50 million in annual contributions over 10 years will only fund one third of the current deficit. The expected target solvency funded ratio at the end of 2020 will remain significantly less than 100%.

Starting in 2013

Beginning in 2013, if the plan's aggregate solvency ratio falls below a specified target for a year, AbitibiBowater must make an additional contribution equal to the lesser of 15% of free cash flow or $15 million per year. The target solvency ratio is the aggregate solvency ratio for all 15 of the plans as at December 31, 2010 with no scheduled improvements prior to 2104, then 1% in each of 2014 and 2015, 2% in 2016, 3% in 2017, 5% in 2018, 8% in 2019 and 10% in 2020. The cumulative target improvement in the solvency ratio by December 31, 2020 is 30%.

Starting in 2016

Beginning in 2016, if the plan's aggregate solvency ratio is more than 2% below the target for that year and if the benefits payments exceed a certain threshold, AbitibiBowater must make a supplemental contribution equal to the amount the benefit payments exceed the prescribed threshold. This supplemental contribution must be paid as a lump sum in the first year (2016) and is limited to $25 million. After 2016, there is no limit on this supplemental contribution, but it may be amortized over three years as opposed to being remitted in one lump sum. The test for the benefit payments is triggered if the sum of all the unfunded benefits payments paid by the fund is greater than the sum of all the contributions made to the fund since 2011.

After 2015

Additional contributions may be required if the Superintendent considers such measures to be appropriate based on the financial condition of AbitibiBowater.

Other requirements

There are also a number of other requirements - not all directly related to the pension plans, such as:

- AbitibiBowater must not pay a dividend at any time when the weighted average solvency ratio of the pension plans is less than 80%
- AbitibiBowater must make a $75 additional contribution over four years for each metric ton of capacity reduced in the event of downtime of more than 6 consecutive months; and
- The head office for AbitibiBowater and related functions must be maintained in Quebec and AbitibiBowater must make certain investments in the province.

Balancing the Interest of All Parties

We understand that your office must balance the interests of all parties and that many of our retirees would have some concerns regarding the impact of funding our deficit over a longer period of time. However, we wish to point out that while all retirees continue to receive pension benefits under the plans and the requirements of the British Columbia PBSA, significant sacrifices have been made by our active employees. We have gone through workforce reductions, frozen salaries for management and salaried staff and reduced or eliminated salaried and retiree benefits.

The chart below illustrates the extent of the changes in our employee base, including the acquisition of a mill in Snowflake, Arizona in April 2008, over the last 4 ½ years:

Active Employees (Salaried and Hourly)		
Total	**December 2006**	**June 2011**
Crofton BC	975	542
Elk Falls BC	993	7
Powell River BC	681	396
Port Alberni BC	558	313
Snowflake Ariz	0	296
Nanaimo BC	0	37
Richmond BC	218	137
Fibre Supply (BC)	25	6
Sales – USA	24	15
PRD Coquitlam BC	74	5
SDC Surrey BC	107	76
Total	**3655**	**1830**

The chart reflects the permanent closure announced in July 2010 of our Elk Falls paper mill near Campbell River. The paper facility had been indefinitely curtailed in February 2009 and the pulp mill at the same site had been closed in 2008. The paper mill was closed in light of persistent weak markets for commodity paper grades combined with uncompetitive manufacturing costs, including labour, municipal taxes, fibre, and other input costs. The closure was a significant event and a difficult outcome for our mill employees and families, for the community, and for our company.

Effective January 1, 2010, active salaried employees participating in the defined benefit (DB) plan ceased to accrue benefits under the DB segment of the plan and began to participate in the defined contribution (DC) segment of the plan. Also, effective January 1, 2010, the company contribution level under the DC segment of the Salaried Plan was reduced from 7% to 5% of pensionable earnings. Annual vacation entitlements were limited to 5 weeks per employee and supplemental vacation benefits eliminated on a prospective basis. Extended health and other benefit plans payable both during an employee's working career as well as during retirement were reduced or eliminated. In February 2010, the company announced changes to its benefit plans for current retirees which included the replacement of the current extended health benefits program with provision for the lower cost program available to employees in active employment. A 50/50 cost sharing arrangement was introduced for BC Medical Services Premiums for both active and retired employees.

Funded Position of the Plans

The funded position of the Salaried Plan and the Plan A as at December 31, 2010 is as follows:

(in $000's)	Salaried Plan [1]	Plan A
Going Concern Basis		
Value of assets	$ 242,109	$ 12,603
Liabilities	265,437	13,118
Surplus (deficit)	$ (23,328)	$ (515)
Funded ratio	91.2%	96.1%
Solvency Basis		
Value of assets	$ 228,059	$ 11,750
Liabilities	301,542	14,988
Surplus (deficit)	$ (73,483)	$ (3,238)
Funded ratio	75.7%	78.4%

[1] Excluding the defined contribution provision of the Salaried Plan.

Details Regarding Solvency Extension Request

We are formally requesting an extension of an additional 10 years to the PBSA five-year requirement to fund the new solvency deficit arising as at December 31, 2010, resulting in a solvency amortization period of 15 years. The payments required under the current 5-year amortization schedule and under the requested 15-year amortization schedule for each of the Salaried Plan and Plan A, based on the results of the actuarial valuations as at December 31, 2010, are as follows. The existing schedules to fund the previously established deficits have also been provided for information purposes.

Salaried Plan

Current Amortization Schedules as at December 31, 2010

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2004	Dec. 2017 [1]	$ 1,582,137	$ 9,478,944
Going concern	Jan. 1, 2011	Dec. 2015	1,338,057	5,972,257
Solvency	Jul. 1, 2009	Dec. 2016	1,438,631	7,544,344
Solvency	Jul. 1, 2009	Dec. 2017	848,001	5,080,568
Solvency	Jan. 1, 2011	Dec. 2015	10,173,118	45,406,472
Total			$ 15,379,944	$ 73,482,585

[1] The scheduled end date for the going concern amortization schedule established January 1, 2004 is December 31, 2018.

Revised Amortization Schedules as at December 31, 2010

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2004	Dec. 2018	$ 1,582,137	$ 10,610,081
Going concern	Jan. 1, 2011	Dec. 2025	1,338,057	14,610,402
Solvency	Jul. 1, 2009	Dec. 2016	1,438,631	7,544,344
Solvency	Jul. 1, 2009	Dec. 2017	848,001	5,080,568
Solvency	Jan. 1, 2011	Dec. 2025	3,263,744	35,637,190
Total			$ 8,470,570	$ 73,482,585

Plan A

Current Amortization Schedules as at December 31, 2010

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2002	Mar. 2016	$ 115,111	$ 534,319
Solvency	Jul. 1, 2009	Dec. 2016	159,043	834,040
Solvency	Jul. 1, 2009	Dec. 2017	26,632	159,558
Solvency	Jan. 1, 2011	Dec. 2015	383,240	1,710,547
Total			$ 684,026	$ 3,238,464

Revised Amortization Schedules as at December 31, 2010

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2002	Mar. 2016	$ 115,111	$ 534,319
Solvency	Jul. 1, 2009	Dec. 2016	159,043	834,040
Solvency	Jul. 1, 2009	Dec. 2017	26,632	159,558
Solvency	Jan. 1, 2011	Dec. 2025	156,656	1,710,547
Total			$ 457,442	$ 3,238,464

The valuation reports as at December 31, 2010 for the Salaried Plan and Plan A have been prepared and, as you know, are required to be formally filed with your office by September 26, 2011. Advance copies can be provided to you in conjunction with this request. Please find attached a Supplementary Actuarial Opinion to each of these reports providing certification by our actuaries of the above revised solvency amortization schedules of payments as being sufficient to fully amortize the respective solvency deficiencies over the requested extended period. For your reference, the table below compares the scheduled minimum contribution requirements towards the plans' deficits prior to and after the application of the requested extension to the solvency amortization period:

Scheduled Minimum Required Contribution Towards Deficit

	Salaried Plan		Plan A	
Year	Prior to Solvency Period Extension	After Solvency Period Extension	Prior to Solvency Period Extension	After Solvency Period Extension
2010	$ 3,868,768	$ 3,868,768	$ 300,785	$ 300,785
2011	$ 15,379,944	$ 8,470,570	$ 684,026	$ 457,442
2012	$ 15,379,944	$ 8,470,570	$ 684,026	$ 457,442
2013	$ 15,379,944	$ 8,470,570	$ 684,026	$ 457,442
2014	$ 15,379,944	$ 8,470,570	$ 684,026	$ 457,442
2015	$ 15,379,944	$ 8,470,570	$ 684,026	$ 457,442
2016	$ 3,868,769	$ 8,470,570	$ 211,977	$ 368,633
2017	$ 2,430,138	$ 7,031,939	$ 26,632	$ 183,288
2018	$ 0	$ 6,183,938	$ 0	$ 156,656
2019	$ 0	$ 4,601,801	$ 0	$ 156,656
2020	$ 0	$ 4,601,801	$ 0	$ 156,656
2021	$ 0	$ 4,601,801	$ 0	$ 156,656
2022	$ 0	$ 4,601,801	$ 0	$ 156,656
2023	$ 0	$ 4,601,801	$ 0	$ 156,656
2024	$ 0	$ 4,601,801	$ 0	$ 156,656
2025	$ 0	$ 4,601,801	$ 0	$ 156,656

We are committed to funding the pension plan deficits as the Company's financial circumstances improve. To support this commitment, in combination with the solvency period extension, we will put measures in place which result in additional contributions to the pension plans in years of strong company financial performance. Further information is provided below.

When Company Posts Good Financial Results

In years we post improved financial results during the solvency extension period, a supplementary contribution will be remitted to the pension plans to fund the plans' deficits. The amount of this supplementary contribution will increase incrementally based on a target financial metric.

Cash flow management is fundamental to the sustainability of our company. Accordingly, a key financial metric we, and our stakeholders, use to measure improvements in our business is EBITDA (earnings before interest, taxes, depreciation and amortization), which is an approximate measure of our company's operating cash flow.

When EBITDA exceeds $120 million in a fiscal year, we will make a supplementary contribution to the pension plans up to the cumulative amount we would have been required to make in the absence of solvency relief. The amount of this contribution would be $1 million for every $10 million EBITDA exceeds $120 million. For example, if EBITDA was $150 million, Catalyst Paper would contribute the scheduled amortization payments plus an additional $3 million, in aggregate, to the Salaried Plan and Plan A.

FICOM CONSIDERATIONS IDENTIFIED IN BULLETIN PEN-09-001

The following discussion addresses the specific factors identified in Bulletin PEN-09-001 for the Superintendent's consideration of solvency extension determinations:

1) *Is the request for a solvency deficiency payment extension demonstrably in the best interests of plan members?*

   The reduction in the annual required contribution requirement resulting from the extension of the solvency deficiency payment period, combined with other measures Catalyst is currently implementing, will improve cash flow and preserve liquidity, improving our ability to weather the continuing difficult climate in our industry and continue our operations into the future. The continued operations of Catalyst will provide needed direct employment opportunities to sustain the communities in which it operates and future incomes, benefits and pension accruals for its employees as well as indirect employment in the suppliers to the company and communities in which the company has operations or offices. An extension of the solvency amortization period is, over the long term, in the best interests of its plan members.

2) *Is the solvency deficiency the result of factors that were largely beyond the control of the plan administrator?*

   The December 31, 2010 actuarial valuations are the first valuation reports filed with the regulators following the economic downturn of 2008 and 2009. Similar to other pension plans, Catalyst plans' assets achieved historically significant investment losses during this period primarily due to extraordinary events in the capital markets, such as the credit crisis fueled by sub-prime mortgages in the United States and the failure or sale at discounted prices of large, long standing financial institutions (Lehman Brothers, Merrill Lynch, Washington Mutual, Wachovia, etc.).

   Catalyst Paper Corporation has made some changes to the plans' asset portfolios to help mitigate the risk of experience similar losses in the future. A currency hedge program has been implemented to attenuate large currency movements and minimize large losses while allowing for participation in currency gains. In addition, one of the foreign equity managers, AllianceBernstein, was replaced in 2009. The portion of the assets invested with AllianceBernstein were significantly affected by the failure of certain financial institutions. This investment manager was replaced by JP Morgan, who we consider to have better risk controls in place to limit extensive departures from the index that occurred with Alliance Bernstein.

   Similar to most Canadian pension plans, Catalyst's pension plans are reasonably invested in a diverse portfolio of Canadian fixed income assets, Canadian equities and foreign equities. Catalyst Paper is currently considering implementing a journey planning strategy which will, over time, reduce investment risk in the asset portfolio by making timely reductions in the equity investments and also increasing the duration of fixed income assets to act as an increasing hedge of the pension obligations.

3) *Would the special payments normally required to eliminate the solvency deficiency result in severe financial hardship for the plan sponsor, which can only be resolved through the solvency extension?*

   Our success depends on adequate liquidity and continued ability to finance growth. We are committed to identifying and implementing every action possible to avoid another one of our BC mills permanently closing.

   The contribution requirement to the two pension plans is scheduled to increase from \$4 million in 2010 to more than \$16 million in 2011. This increase coupled with the impact of the strong Canadian dollar and higher input costs (e.g. fossil fuels and chemicals) on an already challenging environment for the paper business will put significant pressure on our operating earnings, cash flows and liquidity

A reduction in our annual pension plan contribution requirements is a key component of our efforts to manage our cash flow and preserve liquidity. We are hopeful that this measure, in combination with the other efforts we have currently implemented will help us achieve the necessary reductions in our cash flow requirements.

4) *Has the plan sponsor provided strong assurance of its ongoing financial viability for the period of the solvency extension?*

It is the belief of Catalyst management that the company and its BC mills can survive to benefit during better economic times. We continue to focus on our cash flows and over the last year and a half have dealt with our nearest debt maturities. In March 2010, we exchanged US$318.7 million in senior notes due June 2011 for new secured notes due June 2016, and subsequently, in February 2011, redeemed the remaining 2011 notes. In May 2010, we issued in a private placement $US110 million of new senior secured notes due December 2016. In May 2011, we amended our asset-based loan facility with an improved covenant structure and with reduced borrowing costs. Our financial covenants are manageable and we have no immediate debt maturities due.

Our outlook for 2011 is mainly unchanged from 2010. Paper demand has been weak in the first half of 2011 but is expected to improve in the second half. Speciality paper prices are expected to continue to improve slightly in the second half of 2011 but these will be offset by a strong Canadian currency and inflationary pressures on inputs. Pulp markets were strong through the first half of 2011 but have seen a recent slowdown in Chinese buying interest. Pulp markets are expected to stablilize or improve once buying interest from China resumes.

Our financial results for the first half of 2011 have improved over the first half of 2010, despite losses at two of our mills in May 2011 due to fires as well as extended maintenance downs. We have every intention to improve our performance in the second half of 2011, and return to profitability over the long term in a very competitive industry.

Over the longer term, we continue to believe that BC, and in particular the BC Coast, can be an attractive environment for low cost, viable paper mills provided that various stakeholders recognize the competitive global environment the industry needs to operate in. Paper making requires four key inputs – access to competitively priced fibre, low cost energy, productive assets and a skilled workforce. The BC Coast is well positioned with respect to all four of these requirements. It has one of the lowest cost supplies of electricity in North America and is one of the only regions in North America where availability of fibre is likely to grow over the next 3 to 10 years. The company has been spending on maintenance or capital to keep its assets in a productive state. These advantages, when combined with our product mix and the continued progress we expect to see on labour costs and municipal taxes, should assist Catalyst in continuing its operations on the BC Coast.

5) *Does the plan administrator have a good record with respect to the plan administration and regulatory filings?*

As part of Catalyst's plan governance process, the Retirement Plan Committee annually reviews the plans' compliance with respect to the provisions of the plans, the *Pension Benefits Standards Act* and the *Income Tax Act* (Canada). This review is documented in a report referred to as the "Compliance Checklist". If any areas of non-compliance are identified during this review, corrective actions are discussed and immediately implemented, as required.

As you are aware, in early 2009, FICOM completed an onsite examination of the plans. The examination addressed the plans' investment activities, actuarial reports, plan governance, record keeping and regulatory compliance. The examination indicated that the plans are well managed overall and had identified only two areas of concern: the Salaried Plan's priority payout provisions relating to the allocation of assets on plan termination and documentation relating to the securities lending practices in the plans' Statement of Investment Policies and Procedures. Catalyst has since addressed both of these issues and amended the Salaried Plan document and the Statement of Investment Policies and Procedures per FICOM's recommendations.

6) *Have all required contributions and special payments to the plan's fundholder been remitted within the regulatory deadlines?*

All required contribution and special payments have been remitted to CIBC Mellon, the plans' trustee, within the regulatory deadlines. A report from the plans' trustee, CIBC Mellon, is attached confirming the remittances of the required contributions and special payments as well as showing the timing and amount of each transaction for each of the past three years.

7) *Has the plan administrator reviewed the form and design of its plan to ensure that the benefits are affordable?*

The defined benefit provision of the Salaried Plan has been closed to new membership since 1994 and all new entrants are enrolled in the defined contribution provision of the plan. As such, the bulk of the plan membership is composed of retirees and beneficiaries. In respect of the existing active DB membership, effective January 1, 2010, the DB plan was closed for future service and all existing active DB members began participating in the DC plan. Only benefits in respect of service accrued prior to January 1, 2010 remain in the DB plan. Also effective January 1, 2010, the employer contribution rate under the DC plan was reduced from 7% of eligible earnings to 5% of eligible earnings. We believe that we have exhausted all possible changes to the design of the Salaried Plan that would reduce the cost of this plan.

Plan A has no active members. There are no possible plan design changes that would reduce the cost of this plan.

Other Application Requirements

Further to the application requirements specified in Bulletin PEN-09-001:

- Please find enclosed copies of the Company financial statements for the last three years of operations.
- We confirm that we will not increase plan benefits during the solvency deficiency period without the written approval of the Superintendent.

We would like to meet with you to discuss our request and the reasons for it in person. Please contact me by email at brian.baarda@catalystpaper.com or (604) 247-4710 to arrange a convenient time.

Regards,

Brian Baarda
Vice President, Finance and Chief Financial Officer

Attachments: Actuarial Certifications
Copies of Company financial statements for last three years
Reports from CIBC Mellon on remittance of contributions

Staiger, Peter (Richmond)

From:	Omichinski, Jaime (Vancouver) [jaime.omichinski@towerswatson.com]
Sent:	Wednesday, August 03, 2011 4:44 PM
To:	Abraham.Koomson@ficombc.ca
Cc:	Staiger, Peter (Richmond); Mercier, Bernard N (Vancouver); Wach, Michael (Vancouver)
Subject:	Catalyst Paper Corporation - Application for solvency extension
Attachments:	SuppOpinion_SolvExt_PlanA_10 yrs.pdf; SuppOpinion_SolvExt_SalPlan_10yrs.pdf

Hi Abraham,

Further to your request, please find attached Supplementary Opinions for the Salaried Plan and Plan A in respect of a 10-year amortization period.

Please note I will be away from the office commencing tomorrow and returning on August 17, 2011. If you should have any questions or require any additional information during my absence, please contact Michael Wach at (604) 691-1077.

Regards,
Jaime

Ms. Jaime Omichinski, FCIA, FSA
Senior Consultant

Towers Watson
Suite 1600, 1100 Melville Street
Vancouver, BC V6E 4A6
Direct 604 691 1006
Main 604 691 1000
Fax 604 691 1062

TOWERS WATSON

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August 3, 2011

Abraham Koomson
Senior Analyst, Pensions
Financial Institutions Commission, British Columbia
1200-13450 102nd Avenue
Surrey, BC V3T 5X3

Dear Mr. Koomson:

CATALYST PAPER CORPORATION RETIREMENT PLAN FOR SALARIED EMPLOYEES - REGISTRATION NO. P085400

Further to your request, the purpose of the letter is to provide an actuarial certification of the schedule of solvency amortization payments resulting from an extension of the solvency amortization period to 10 years for the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Plan"). This letter addresses the defined benefit component of the Plan only.

Actuarial Basis, Membership Data and Plan Provisions

The membership data, actuarial assumptions and methods and plan provisions are the same as those used for the actuarial valuation as at December 31, 2010. The discount rate used for determining the solvency amortization payments is 4.50% per year. Further details on the actuarial basis, the membership data and the plan provisions can be found in Appendix B, Appendix C and Appendix D of the December 31, 2010 valuation report, respectively.

Amortization Schedules

As disclosed in the December 31, 2010 valuation report, the statutory solvency deficiency revealed at December 31, 2010 together with the remaining statutory solvency deficiencies from the previous actuarial valuations must be liquidated by the employer amortization payments at least equal to the amount, payable quarterly in arrears, and for the periods set forth below in order to comply with the Regulation to the Pension Benefits Standards Act (British Columbia):

Five-Year Amortization Schedules as at December 31, 2010

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2004	Dec. 2017 [1]	$ 1,582,137	$ 9,478,944
Going concern	Jan. 1, 2011	Dec. 2015	1,338,057	5,972,257
Solvency	Jul. 1, 2009	Dec. 2016	1,438,631	7,544,344
Solvency	Jul. 1, 2009	Dec. 2017	848,001	5,080,568
Solvency	Jan. 1, 2011	Dec. 2015	10,173,118	45,406,472
Total			$ 15,379,944	$ 73,482,585

[1] The scheduled end date for the going concern amortization schedule established January 1, 2004 is December 31, 2018.

The employer contributions, payable quarterly in arrears, required to liquidate the statutory solvency deficiency revealed at December 31, 2010 together with the remaining unfunded actuarial liability and statutory solvency deficiencies from the previous actuarial valuations, over a solvency period of 10 years, are as follows:

Ten-Year Amortization Schedules as at December 31, 2010

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2004	Dec. 2018	$ 1,582,137	$ 10,610,081
Going concern	Jan. 1, 2011	Dec. 2020	1,338,057	10,764,700
Solvency	Jul. 1, 2009	Dec. 2016	1,438,631	7,544,344
Solvency	Jul. 1, 2009	Dec. 2017	848,001	5,080,568
Solvency	Jan. 1, 2011	Dec. 2020	4,907,743	39,482,892
Total			$ 10,114,569	$ 73,482,585

Estimated Solvency Ratio for Ensuing Three Years

Our calculations are based on an extrapolation of the valuation results for the Salaried Plan as at December 31, 2010. The extrapolation is based on expected benefits, expected service costs (where applicable), expected cash flows and an expected investment return of 4.5% per year. No asset or liability gains or losses have been assumed.

The estimated solvency ratio assuming a 5-year and a 10-year amortization period for the current valuation year and the ensuing years is provided below:

Projection Date	Amortized Over 10 Years	Amortized Over 5 Years
December 31, 2010	75.6%	75.6%
December 31, 2011	77.2%	79.1%
December 31, 2012	79.0%	82.9%
December 31, 2013	81.1%	87.2%

Certification

In our opinion, for the purpose of determining the schedule of solvency amortization payments resulting from the extension of the solvency amortization period from 5 years to 10 years and the projection of the solvency ratios, the data are sufficient and reliable, the assumptions are, in aggregate, appropriate and the methods employed are appropriate. This letter has been prepared, and our opinion has been given, in accordance with accepted actuarial practice in Canada.

The results shown in this letter are reasonable actuarial results reflecting the actuaries' judgment of future events. However, a different set of results could also be considered reasonable actuarial results since accepted actuarial practice does not prescribe a single "best-estimate" for each assumption. Thus, reasonable results differing from those presented in this letter could have been developed by selecting different assumptions based on a different judgment of future events. Future contribution levels may change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future experience gains or losses. None of these changes have been anticipated at this time, but will be revealed in future actuarial valuations.

The information contained in this letter was prepared for Catalyst Paper Corporation, for its internal use and for filing with the Financial Institutions Commission of BC, in connection with Towers Watson's actuarial valuation of the Plan. This letter is not intended or necessarily suited for other purposes. Further distribution of all or part of this letter to other parties (except where such distribution is required by applicable legislation) or other use of this letter is expressly prohibited without Towers Watson's prior written consent.

Towers Watson Canada Inc.

Sincerely,

Jaime Onichinski
FCIA

Michael Wach
FCIA

Vancouver, BC
August 3, 2011

cc: Brian Baarda — Catalyst Paper Corporation

Staiger, Peter (Richmond)

From:	Staiger, Peter (Richmond)
Sent:	Wednesday, August 03, 2011 3:38 PM
To:	Koomson, Abraham FIN:EX; michael.peters@ficombc.ca
Cc:	Baarda, Brian (Richmond); Adderley, David (Richmond)
Subject:	Solvency Funding Relief - follow up to meeting of August 3, 2011
Attachments:	JOURNEY PLAN –.pptx

Private & Confidential

Dear Mr. Koomson

At our meeting today, we undertook to provide you with additional information as follows.

1) Letters of Credit – you asked whether the company could provide a letter of credit as an alternative approach to the requested funding relief.

   Our current corporate or plan sponsor focus is on improving cash flows, improving liquidity and reducing costs. Our liquidity is comprised of two items, cash and availability on the ABL revolver with the banks. Our cash balance is currently at minimal operating levels. As disclosed in our 2011 Second Quarter Report, availability on our ABL revolver as at June 30, 2011 was $106.2 million. Letters of credit reduce availability on our ABL revolver; such a reduction has an adverse impact on our overall liquidity. Accordingly, we do not consider letters of credit a viable alternative for Catalyst Paper.

2) Journey Plan – you asked for further details on the "Journey Plan" or phase in of a "Liability Driven Investments" approach.

   Attached is a one page slide which provides an overview of the "Journey Plan". Under this plan the duration/interest hedge will increase from the current 3.7/32% to 5.0/43% once arrangements are in place with the fixed income manager. Thereafter, the duration/interest hedge will be increased to 7.1/99% in five steps with each 5% improvement in the solvency ratio starting at 80%. In addition, the portion of assets allocated to return seeking assets, i.e. equities or real estate, will be decreased from 60% to 20% in four steps with each 5% improvement in the solvency ratio starting at 85%.

3) Ten- Year Amortization Schedule as at December 31, 2010 – you asked for ten year amortization schedules in addition to the five year and fifteen year schedules provided with the request.

   TowersWatson is preparing and will forward to you shortly.

Again, thank you for your consideration of our request. If you require any further information, please let us know.

Regards,

Peter M Staiger
Vice President and Treasurer
Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, BC V7B 1C3
Tel: 604-247-4372

This e-mail communication is confidential and may be legally privileged. If you are not the intended recipient, please notify me by return e-mail or by telephone and delete this communication and any copies immediately. Thank you. 253

JOURNEY PLAN –

improve matching between fluctuations in asset values and actuarial liabilities

Catalyst's Goals for the DB Pension Plan

- Create a 'Journey Plan' to manage pension risk and implement an exit strategy
- Implement a moderate short term reduction in interest rate risk, taking account of Catalyst's expectation of bond yield increases
- Progressive derisking over time based upon financial triggers
- Ultimate exit via annuity purchase

Journey Plan

Expected Liability Duration	Solvency Ratio	Expect to reach trigger	Return Seeking Assets	Asset Dur'n	Approx Interest *'Hedge'*
CURRENT POSITION Jan 1 2011					
8.9	**76%**		**60%**	**3.7**	**32%**
SHORT TERM CHANGE IN FIXED INCOME STRUCTURE					
8.9	76%	2011	60%	5.0	43%
INCREASE BONDS PLUS ADJUST BOND MIX					
8.4	80%	2013	60%	5.8	55%
8.0	85%	2015	50%	6.3	67%
7.7	90%	2017	40%	6.5	76%
7.5	95%	2018	30%	6.9	88%
7.2	100%	2020	20%	7.1	99%

[redacted]

Implementation Plan

- TW will provide PH&N with liability cashflow estimates on an annual basis
- Use Solvency Ratio estimates as trigger points for changes to allocation and bond structure
- Solvency Ratio estimates will be done quarterly by TW and communicated to Catalyst and PH&N
- A combination of PH&N pooled funds will be used to achieve the hedge ratio via duration management
- PH&N will also manage term-structure risk

Catalyst

Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, British Columbia
Canada V7B 1C3

Tel: 604 247 4400
Fax: 604 247 0512

September 30, 2011

Abraham Koomson
Senior Analyst, Pensions
Financial Institutions Commission, British Columbia
1200 - 13450 102nd Avenue
Surrey, BC V3T 5X3

Dear Mr. Koomson:

REQUEST FOR EXTENSION OF TIME PERIOD FOR CONTRIBUTION REMITTANCE
CATALYST PAPER CORPORATION RETIREMENT PLAN FOR SALARIED EMPLOYEES – REGISTRATION NO. P085400
CATALYST PAPER CORPORATION RETIREMENT PLAN "A" – REGISTRATION NO. P085994

Further to our discussions, and in accordance with Section 6 of the *Pension Benefits Standards Act* ("PBSA"), please accept this letter as application to the Superintendent to extend the time period for remitting the retroactive past service contributions required as a result of the recent filing of valuation reports for both the Catalyst Retirement Plan for Salaried Employees (the "Salaried Plan") and Catalyst Paper Corporation Retirement Plan "A" ("Plan A").

As you are aware, we have made an application to the Superintendent for an extension of the time period required to amortize the statutory solvency deficit as at December 31, 2010 for both the Salaried Plan and Plan A. It is our understanding that this application is currently under review. In the interim, we filed the required triennial actuarial valuation reports as at December 31, 2010 for the Salaried Plan and Plan A. These reports revealed additional statutory solvency deficits as December 31, 2010, and subsequently, increased solvency deficit funding requirements retroactive to January 1, 2011.

We request that the change in the solvency deficit funding requirements resulting from the statutory solvency deficit as at December 31, 2010 be deferred until the Superintendent makes a decision in respect of our application for the solvency period extension. Until such time, we would continue to remit solvency special payments in accordance with the previously filed actuarial valuation reports as at December 31, 2007 for the Salaried Plan and Plan A and the solvency relief granted by the Superintendent in July 2007.

Note that, as discussed, the actuarial valuation reports as at December 31, 2010 for the Salaried Plan and Plan A recently filed with your office included an adjustment for solvency asset smoothing. In the event our application for an extension of the time period required to amortize the statutory solvency deficit as at December 31, 2010 for the plans is granted by the Superintendent, we confirm we will file revised reports as at December 31, 2010 with your office removing the adjustment for solvency asset smoothing.

Should you have any questions or require any further information, please do not hesitate to contact me.

Regards,

B Baarda

Brian Baarda
Vice President, Finance and Chief Financial Officer

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Financial Institutions
Commission

October 4, 2011
Plan Number: P085400-1

Mr. Brian Baarda,
Catalyst Paper Corporation
3600 Lysander Lane
Richmond, BC V7B 1C3

Dear Mr. Baarda:

Re: Catalyst Paper Corporation Retirement Plan for Salaried Employees

Thank you for your letter of September 30, 2011 in which you request an extension to the period for remitting special payments required as a result of the solvency deficiency realized from the valuation report prepared at December 31, 2010.

From your discussion with my staff, you have requested an extension for making the required payment for the first three quarters of 2011. As provided under section 6 of the *Pension Benefits Standards Act*, I hereby extend the required payment date to December 1, 2011 or 30 days after the decision of the Superintendent is communicated to you, whichever is later. It is our expectation that we will be able to communicate the decision of the Superintendent to you by October 31, 2011.

Should you have any questions, please contact Abraham Koomson at (604) 953-5412.

Yours truly,

Michael J. Peters
Executive Director, Pensions

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December 14, 2011
Plan Number: P085400-1
P085994-1

Mr. Brian Baarda
Catalyst paper Corporation
360 Lysander Lane
Richmond, BC V7B 1C3

Dear Mr. Baarda:

Re: Catalyst Paper Corporation application for solvency extension

We acknowledge receipt of your letter of July 27, 2011 requesting an extension of the time period required for amortizing the solvency deficiencies of the above pension plans as required under the *Pension Benefits Standards Act.*

Section 6 of the Act provides the Superintendent with authority to extend the time within which solvency payments are required to be made to amortize a solvency deficiency. For the purposes of section 6 of the Act, I hereby grant an extension to the time limit for making payments to amortize the deficiencies of the above plans as follows:

i. Catalyst will instruct the actuary for the pension plans to file a revised actuarial valuation report as of December 31, 2010, which will not use a smoothed value of assets for the solvency valuation.

ii. **Special Payments: -** Catalyst will make the following annual special payments towards liquidating the existing deficiencies of the plans as set out in the revised December 31, 2010 valuation report:

Year	Salaried Plan	Plan A	Total
2011	$ 10,114,569	$ 513,408	$ 10,627,977
2012	$ 10,114,569	$ 513,408	$ 10,627,977
2013	$ 10,114,569	$ 513,408	$ 10,627,977
2014	$ 15,379,944	$ 684,026	$ 16,063,971
2015	$ 15,379,944	$ 684,026	$ 16,063,971
2016	$ 15,379,944	$ 595,218	$ 15,975,162
2017	$ 8,523,057	$ 262,561	$ 8,785,618

.../2

iii. **DC Plan**: Catalyst will continue to fund the DC Plan at 5 per cent of earnings for active members.

iv. **Supplemental payments**: Catalyst will make supplementary contributions to the fund of $1 million for every $10 million EBITDA exceeds $100 million in any fiscal year during the extension period.

v. **Solvency asset smoothing**: The plans will not apply solvency asset smoothing to solvency valuations during the period covered by this agreement.

vi. **CCAA**: If Catalyst files for CCAA protection all conditions of the extension will be cancelled and any deferred amount will be considered due and owing.

vii. If Catalyst petitions for bankruptcy or decides to cease operations as a going concern, the Superintendent will consider the extension agreement rescinded, and contributions and payments owing to the plan are due and owing in accordance with the statutory provisions with no extension, pursuant to section 6 of the PBSA.

viii. **Monitoring**: During the period of the extension, the plans will file annual funding updates by April 1, of each year.

Please contact Abraham Koomson at 604 953-5412 or Abraham.Koomson@ficombc.ca if you have any questions concerning this matter.

Yours truly,

Carolyn Rogers

Carolyn Rogers
Superintendent of Pensions

pc: Mr. Bernard Mercier, Towers Watson

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TOWERS WATSON

1100 Melville Street
Suite 1600
Vancouver, B.C. V6E 4A6
Canada

T +1 604 691 1000

towerswatson.com

December 20, 2011

Abraham Koomson
Senior Analyst, Pensions
Financial Institutions Commission, British Columbia
1200-13450 102nd Avenue
Surrey, BC V3T 5X3

Dear Mr. Koomson:

CATALYST PAPER CORPORATION RETIREMENT PLAN FOR SALARIED EMPLOYEES - REGISTRATION NO. P085400

Further to your request, the purpose of the letter is to provide an actuarial certification of the schedule of solvency amortization payments resulting from an extension of the solvency amortization period for the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Plan") set out in the letter from the Superintendent of Pensions dated December 14, 2011. This letter addresses the defined benefit component of the Plan only.

Actuarial Basis, Membership Data and Plan Provisions

The membership data, actuarial assumptions and methods and plan provisions are the same as those used for the actuarial valuation as at December 31, 2010. The discount rate used for determining the solvency amortization payments is 4.50% per year. Further details on the actuarial basis, the membership data and the plan provisions can be found in Appendix B, Appendix C and Appendix D of the December 31, 2010 valuation report, respectively.

Amortization Schedules

As disclosed in the December 31, 2010 valuation report, the statutory solvency deficiency revealed at December 31, 2010 together with the remaining statutory solvency deficiencies from the previous actuarial valuations must be liquidated by the employer amortization payments at least equal to the amount, payable quarterly in arrears, and for the periods set forth below in order to comply with the Regulation to the Pension Benefits Standards Act (British Columbia):

Five-Year Amortization Schedules as at December 31, 2010

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2004	Dec. 2017 [1]	$ 1,582,137	$ 9,478,944
Going concern	Jan. 1, 2011	Dec. 2015	1,338,057	5,972,257
Solvency	Jul. 1, 2009	Dec. 2016	1,438,631	7,544,344
Solvency	Jul. 1, 2009	Dec. 2017	848,001	5,080,568
Solvency	Jan. 1, 2011	Dec. 2015	10,173,118	45,406,472
Total			$ 15,379,944	$ 73,482,585

[1] The scheduled end date for the going concern amortization schedule established January 1, 2004 is December 31, 2018.

The employer contributions, payable quarterly in arrears, required to liquidate the statutory solvency deficiency revealed at December 31, 2010 together with the remaining unfunded actuarial liability and statutory solvency deficiencies from the previous actuarial valuations, over the solvency period set out in the Superintendent's letter dated December 14, 2011, are as follows:

Amortization Schedules as at December 31, 2010 with Period Extension

Type of payment	Effective date	Month of last payment recognized in calculation	Annual amortization payment	Present value as at December 31, 2010 (at 4.5% per annum)
Going concern	Jan. 1, 2004	Dec. 2017	$ 1,582,137	$ 9,478,944
Going concern	Jan. 1, 2011	Aug. 2017[1]	1,338,057	7,682,882
Solvency	Jul. 1, 2009	Dec. 2016	1,438,631	7,544,344
Solvency	Jul. 1, 2009	Dec. 2017	848,001	5,080,568
Solvency	Jan. 1, 2011	Dec. 2013	4,907,743	13,716,786
Solvency	Jan. 1, 2014	Aug. 2017[1]	10,173,118	29,979,061
Total				$ 73,482,585
Total annual payment 2011-2013			$ 10,114,569	
Total annual payment after 2013			$ 15,379,944	

[1] The final quarterly amortization payment for the going concern and solvency schedules ending August 2017 are $216,184 and $1,643,623 respectively.

TOWERS WATSON

Certification

In our opinion, for the purpose of determining the schedule of solvency amortization payments resulting from the extension of the solvency amortization period set out in the Superintendent's letter dated December 14, 2011, the data are sufficient and reliable, the assumptions are, in aggregate, appropriate and the methods employed are appropriate. This letter has been prepared, and our opinion has been given, in accordance with accepted actuarial practice in Canada.

The results shown in this letter are reasonable actuarial results reflecting the actuaries' judgment of future events. However, a different set of results could also be considered reasonable actuarial results since accepted actuarial practice does not prescribe a single "best-estimate" for each assumption. Thus, reasonable results differing from those presented in this letter could have been developed by selecting different assumptions based on a different judgment of future events. Future contribution levels may change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future experience gains or losses. None of these changes have been anticipated at this time, but will be revealed in future actuarial valuations.

The information contained in this letter was prepared for Catalyst Paper Corporation, for its internal use and for filing with the Financial Institutions Commission of BC, in connection with Towers Watson's actuarial valuation of the Plan. This letter is not intended or necessarily suited for other purposes. Further distribution of all or part of this letter to other parties (except where such distribution is required by applicable legislation) or other use of this letter is expressly prohibited without Towers Watson's prior written consent.

Towers Watson Canada Inc.

Sincerely,

Bernard Mercier
FCIA

Jaime Ornichinski
FCIA

Vancouver, BC
December 20, 2011

cc: Brian Baarda — Catalyst Paper Corporation

BRITISH COLUMBIA
The Best Place on Earth

Financial Institutions Commission

January 4, 2012
Plan Number: P085400-1
P085994-1

Mr. Bernard Mercier
Towers Watson
Suite 1600-1100 Melville Street
Vancouver, BC V6E 4A6

Dear Mr. Mercier:

Re: Catalyst Paper Corporation Retirement Plan for Salaried Employees and Catalyst Paper Corporation Retirement Plan "A".

Thank you for filing the revised actuarial valuation reports for the above pension plans prepared at December 31, 2010.

We have reviewed the reports and find them acceptable for the purposes of the *Pension Benefits Standards Act*. The reports have been placed on file.

Thank you for working with us to develop options for Catalyst which recognizes the need for a balance between the security of benefits of plan members as well as the financial challenges facing the company. We have enjoyed tremendous amounts of cooperation from both you and Brian which has made this difficult task a lot easier.

Please give me a call if we can be of any further assistance. We look forward to receiving the 2011 financial update report by April 1, 2012.

Yours truly,

Abraham Koomson
Senior Analyst, Pensions

pc: Brian Baarda, catalyst paper Corporation

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BRITISH COLUMBIA
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Financial Institutions Commission

February 7, 2012
Plan Number: P085400-1
P085994-1

Mr. Brian Baarda
Catalyst Paper Corporation
360 Lysander Lane
Richmond, BC V7B 1C3

Dear Mr. Baarda:

Re: Catalyst Paper Corporation application for solvency extension

We acknowledge receipt of Catalyst's letter of February 7, 2012 requesting an extension of the time period required for amortizing the solvency deficiencies of the above pension plans as required under the *Pension Benefits Standards Act* (the Act).

For the purposes of section 6 of the Act, I hereby grant an extension to the time limit for making payments to amortize the deficiencies of the above plans as follows:

i. **Special Payments: -** Catalyst will make the following annual special payments towards liquidating the existing deficiencies of the plans as set out in the revised December 31, 2010 valuation report:

Year	Salaried Plan	Plan A	Total
2011	$ 10,114,569	$ 513,408	$ 10,627,977
2012	$ 10,114,569	$ 513,408	$ 10,627,977
2013	$ 10,114,569	$ 513,408	$ 10,627,977
2014	$ 15,379,944	$ 684,026	$ 16,063,971
2015	$ 15,379,944	$ 684,026	$ 16,063,971
2016	$ 15,379,944	$ 595,218	$ 15,975,162
2017	$ 8,523,057	$ 262,561	$ 8,785,618

ii. **DC Plan**: Catalyst will continue to fund the DC Plan at 5 per cent of earnings for active members.

.../2

iii. **Supplemental payments**: Catalyst will make supplementary contributions to the fund of $1 million for every $10 million EBITDA exceeds $100 million in any fiscal year during the extension period.

iv. **Solvency asset smoothing**: The plans will not apply solvency asset smoothing to solvency valuations during the period covered by this agreement.

v. **Additional Payments Owing**: Catalyst shall pay the amount of $1,100,000 rateably to the Salaried Plan and Plan A by way of payment of $550,000 on March 18, 2012 and a further $550,000 on April 15, 2012.

vi. Other than the payments set out and due at the dates described in paragraph v. herein, there are no amounts considered due and owing to the Salaried Plan and Plan A with regard to solvency deficiencies as of the date of this letter.

vii. If Catalyst fails to make a payment as set out in paragraph i. or v. herein, without consent for extension or non-payment from the Superintendent, the extension is rescinded, and contributions and payments owing to the plan will be due and owing in accordance with the statutory provisions with no extension, pursuant to section 6 of the Act and section 35 of the *Pension Benefits Standards Regulation* (the Regulation). And for clarity, all amounts payable in accordance with section 35 of the Regulation less any amounts paid in accordance with the extension in paragraph i. will be considered due and owing.

viii. **Monitoring**: During the period of the extension, the plans will file annual funding updates by April 1, of each year.

Please contact Abraham Koomson at 604 953-5412 or Abraham.Koomson@ficombc.ca if you have any questions concerning this matter.

Yours truly,

Carolyn Rogers

Carolyn Rogers
Superintendent of Pensions

pc: Mr. Bernard Mercier, Towers Watson

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BRITISH COLUMBIA
The Best Place on Earth

Financial Institutions Commission

May 25, 2012
Plan Number: P085400-1

Mr. Ken Burns
Lawson Lundell LLP
1600 cathedral Place
925 Westy Georgia Street
Vancouver, BC V6B 4N6

Dear Mr. Burns:

Re: Catalyst Paper Corporation Retirement Plan for Salaried Employees

Thank you for your letter of May 23, 2012 in which you submit a copy of the Board Resolution to amend the above pension plan.

The amendment has been registered under the *Pension Benefit Standards Act* with an effective date of May 24, 2012. This reflects the resolution to make the amendment effective the date after an unsuccessful vote of the Company's proposed plan of arrangement under the *Companies' Creditors Arrangement Act*.

A certificate of registration of the amendment is enclosed for your records.

Please contact me at (604) 660-2637 if you have any questions.

Yours truly,

Abraham Koomson
Senior Analyst, Pensions

Enclosure

pc: David Adderley, Catalyst Paper Corporation
Brian Baarda, Catalyst Paper Corporation

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BRITISH COLUMBIA
The Best Place on Earth

Financial Institutions Commission

NOTICE OF REGISTRATION OF AMENDMENT

Plan Registration Number
P085400-1

Mr. David Adderley
Catalyst Paper Corporation
3600 Lysander Lane
Richmond, BC V7B 1C3

CRA Number
0212076

Name of Plan
Catalyst Paper Corporation Retirement Plan for Salaried Employees

Please be advised that amendment effective May 24, 2012 relating to the above pension plan is hereby registered under the *Pension Benefits Standards Act*.

Administrator
Catalyst Paper Corporation.

Date of Issue
May 25, 2012

Michael J. Peters
Michael J. Peters
Executive Director, Pensions

-- PLEASE ATTACH THIS "NOTICE" TO YOUR "CERTIFICATE OF REGISTRATION" --

pc: Ken Burns, Lawson Lundell LLP

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BRITISH COLUMBIA

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June 5, 2012

David L. Adderley
Vice President and General Counsel
Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond BC V7B 1C3

Dear Mr. Adderley:

Thank you for submitting the "Proposal for Regulatory Assistance" (the "Proposal") in respect of the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Salaried Plan").

I have reviewed your Proposal and the funding schedule set out in relation to Option 4 that would provide solvency funding relief for the Salaried Plan along with the adoption of a special portability election option that would give pensioners the right to elect to receive a commuted value payout that is proportionate to the Salaried Plan's current solvency ratio with a top-up equal to 8 percent of that payout. I understand that the Proposal would apply to the Salaried Plan regardless of whether Catalyst or another party was the employer sponsoring the Plan.

The Government recognizes the importance of Catalyst operations in the communities of Powell River, Port Alberni, North Cowichan, Surrey and Richmond and the approximate 1,600 jobs with Catalyst in those communities.

We also understand the concerns that members of Catalyst's Salaried Plan have in relation to the outcome of Catalyst's restructuring activities and how that may affect their pensions. I am advised that MLA Colin Hansen has received letters of support for the Proposal from the two pensioner's associations whose members are affected by it.

Given the extraordinary circumstances faced by Catalyst and the support for the Proposal expressed by the pensioner's associations, I am pleased to inform you that I am prepared to submit your Proposal to Cabinet for its consideration with a recommendation in favour based on the facts set out in it and the funding relief sought in relation to Option 4 along with the special portability election option.

.../2

Ministry of Finance

Office of the Minister
and Deputy Premier

Mailing Address:
PO Box 9048 Stn Prov Govt
Victoria BC V8W 9E2
Telephone: 250 387-3751
Facsimile: 250 387-5594

Location:
501 Belleville Street
Parliament Buildings, Victoria
website:
www.gov.bc.ca/fin

I would like to thank you again for taking the time to raise this important issue and for your efforts to support the pensioners, employees and communities affected by Catalyst's operations.

If you have any questions, you may contact Marcus Gill, A/Executive Director, Financial and Corporate Sector Policy Branch, at Marcus.Gill@gov.bc.ca or 250 387-9090 or Michael Peters, Deputy Superintendent of Pensions at Michael.Peters@ficombc.ca.

Sincerely,

Kevin Falcon
Minister and Deputy Premier

cc: Carolyn Rogers
Superintendent of Pensions

Ken Burns
Lawson Lundell

This is Exhibit "E" referred to in the affidavit of Deborah Hamann-Trou sworn before me at Vancouver this 17th day of June, 2012.

A Commissioner for taking Affidavits for British Columbia

CATALYST PAPER CORPORATION

RETIREMENT PLAN FOR SALARIED EMPLOYEES

FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

KPMG

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

AUDITORS' REPORT TO THE RETIREMENT PLAN COMMITTEE

We have audited the statement of net assets available for benefits of the Catalyst Paper Corporation Retirement Plan for Salaried Employees as at December 31, 2009 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at December 31, 2009 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

May 13, 2010

CATALYST PAPER CORPORATION
RETIREMENT PLAN FOR SALARIED EMPLOYEES

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

(in Canadian dollars)

As at December 31	*2009*	*2008*
Net assets of the defined benefit segment of the Plan:		
Equity in the Master Trust (note 6(a))	$ 223,179,452	$ 203,293,073
Contributions receivable:		
Employer	953,436	4,548,725
Employee	21,512	29,732
Paid-up life contracts	26,000	24,000
	224,180,400	207,895,530
Investment and administrative expenses payable	(330,548)	(196,717)
	223,849,852	207,698,813
Net assets of the defined contribution segment of the Plan (note 7(a))	64,608,865	61,734,939
Net assets available for benefits	$ 288,458,717	$ 269,433,752

Obligation for defined benefit pension plans (note 9)

See accompanying notes to financial statements.

On behalf of the Retirement Plan Committee administering the
Catalyst Paper Corporation Retirement Plan for Salaried Employees:

CATALYST PAPER CORPORATION
RETIREMENT PLAN FOR SALARIED EMPLOYEES

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
(in Canadian dollars)

Years ended December 31	*2009*	*2008*
Defined benefit segment of the Plan:		
Increase in assets:		
Net gain on investments in the Master Trust	$ 31,434,583	$ –
Employer contributions	8,393,044	18,586,755
Employee contributions	479,775	479,088
Increase in paid-up life contracts	2,000	2,000
Other receipts	4,650	–
	40,314,052	19,067,843
Decrease in assets:		
Net loss on investments in the Master Trust	–	(48,195,107)
Benefit and termination payments	(22,498,236)	(20,144,358)
Investment and administration expenses	(1,664,777)	(1,831,368)
	(24,163,013)	(70,170,833)
Net increase (decrease) in defined benefit segment of the Plan	16,151,039	(51,102,990)
Defined contribution segment of the Plan:		
Increase in assets:		
Net gain on investments (note 7(b))	10,037,824	–
Employer contributions	3,735,229	4,720,053
Other transfers	–	36
	13,773,053	4,720,089
Decrease in assets:		
Net loss on investments (note 7(b))	–	(14,382,345)
Investment management fees	(19,005)	(17,725)
Payments and transfers to terminated and retired employees	(10,880,122)	(7,715,858)
	(10,899,127)	(22,115,928)
Net increase (decrease) in defined contribution segment of the Plan	2,873,926	(17,395,839)
Increase (decrease) in net assets available for benefits	19,024,965	(68,498,829)
Net assets available for benefits, beginning of year	269,433,752	337,932,581
Net assets available for benefits, end of year	$ 288,458,717	$ 269,433,752

See accompanying notes to financial statements.

1. *DESCRIPTION OF PLAN*

Effective January 1, 2004, the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Catalyst Salaried Plan") was combined with the Catalyst Paper Corporation Defined Benefit Retirement Plan for Former Pacifica Papers Inc. Employees (the "Pacifica DB Plan") to form the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Plan").

The Plan is a registered pension plan in the province of British Columbia under registration number P085400. The Plan comprises both defined benefit and defined contribution segments and provides pension benefits to all salaried employees of Catalyst Paper Corporation and its wholly-owned subsidiaries and partnership ("CPC" or the "Sponsor" or the "Employer").

The incorporation of the defined contribution provisions into the Catalyst Salaried Plan was effective January 1, 1994. Prior to that date each employee who was actively employed on December 31, 1993 was required either to make an irrevocable election to remain a defined benefit member accruing defined benefits under the Catalyst Salaried Plan, or become a defined contribution member accruing defined contribution pension benefits under the Catalyst Salaried Plan. After January 1, 1994, each new employee who is eligible to become a Plan member automatically becomes a defined contribution member.

The following description of the Plan is a summary only. For more complete information, reference should be made to the Plan document:

(a) Defined benefit segment

Funding Policy

CPC funds the defined benefit segment of the Plan based on actuarial estimates performed at least triennially to be adequate to provide for the Plan benefits accruing in that Plan year and to fund, in accordance with applicable pension laws, any unfunded actuarial liability which may exist under the Plan. Members participating in enhanced options of the Plan are required to make contributions relating to certain periods of contributory credited service. Member contributions are determined as a percentage of base salary and are based on the option selected and employee's age. These contributions are accumulated and used to provide benefits on retirement.

In October 2009, the B.C. Superintendent of Pensions granted a five-year extension to the time period within which amortization payments for solvency deficiencies are required to be made with respect to the defined benefit segment of the Plan. 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.

Benefits

The defined benefit segment of the Plan provides for normal, early, postponed and disability retirement benefits. Retirement income in respect of defined benefit Plan members is calculated in accordance with formulas in the Plan. 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. 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.

(b) Defined contribution segment

Funding Policy

CPC contributes to the defined contribution segment of the Plan at a rate of 7% of members' monthly earnings. Effective January 1, 2010, the CPC contribution rate was reduced from 7% to 5% of pensionable earnings. CPC may, subject to applicable pension laws, provide for the required contributions to be made to the defined contribution segment of the Plan from existing surplus assets in the defined benefit segment of the Plan. No contributions are required or permitted to be made under the Plan by any member.

1. *DESCRIPTION OF PLAN ... continued*

Investment Options

Defined contribution plan members select where their account balances are invested, in accordance with the investment options and administrative practices offered by CPC.

Benefits

Defined contribution plan members are entitled to the distribution of the value of their accounts following retirement, termination or death.

2. *SIGNIFICANT ACCOUNTING POLICIES*

(a) Basis of presentation

These financial statements are prepared on the going concern basis and present the information of the Plan as a separate financial reporting entity independent of the Sponsor and Plan members. They are prepared to assist the Sponsor and others in reviewing the activities of the Plan for the period, but they do not portray the funding requirements of the Plan or the benefit security of the individual Plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from these estimates.

(b) Changes in accounting policies

Effective January 1, 2008, the Plan adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1535, Capital Disclosures ("Section 1535"), Section 3862, Financial Instruments – Disclosures ("Section 3862") and Section 3863, Financial Instruments – Presentation ("Section 3863").

Section 1535 establishes guidelines for the disclosure of both qualitative and quantitative information regarding an entity's capital and how it is managed. The standard requires enhanced disclosures with respect to the Plan's objective, policies and processes for managing its capital. As the Plan manages net assets rather than capital, the adoption of Section 1535 is applicable to the Plan's management of its net assets.

Sections 3862 and 3863 revise and enhance the disclosure and presentation requirements of Section 3861, Financial Instruments – Disclosure and Presentation. Section 3862 requires the Plan to provide disclosures in its financial statements that enable users to evaluate the significance of financial instruments to the Plan's financial position and performance, the nature and extent of risks arising from financial instruments to which the Plan is exposed during the year and at the statement of net assets available for benefits date, and how the Plan manages those risks.

Effective December 31, 2009, the Plan adopted the amendments to the CICA Handbook Section 3862, Financial Instruments – Disclosures. These amendments require the Plan to present information about financial instruments measured at fair value in accordance with a three level hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices observed in active markets for identical assets or liabilities;

2. *SIGNIFICANT ACCOUNTING POLICIES ... continued*

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

Level 3 – valuation techniques with significant unobservable market inputs.

The level within which financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The additional disclosures as a result of adopting these sections have been detailed in notes 5 and 8.

(c) Investments

The defined benefit segment of the Plan invests solely in the CPC Master Trust (the "Master Trust"). The investment in the Master Trust is accounted for using the equity method. Investments in the defined benefit segment of the Plan are valued at the unit values supplied by the Master Trust administrator, which value represents the Plan's proportionate share of underlying net assets at fair values determined using closing market prices.

The defined contribution segment of the Plan invests in a series of pooled funds under the supervision of an investment manager. Investments in the defined contribution segment of the Plan are stated at fair market value.

The change in the difference between the fair value and cost of investments at the beginning and end of each year for each segment of the Plan is included in net gain or loss on investments for the respective segment in the Statement of Changes in Net Assets Available for Benefits.

Investments in short-term notes, shares, bonds and debentures and pooled funds are carried at quoted year-end market value.

(d) Investment income

Investment income for the Plan, which is recorded on the accrual basis, includes interest income and dividends, realized gains and losses, and the change in unrealized appreciation of investments.

(e) Foreign currency translation

The fair values of foreign currency denominated investments included in the Statement of Net Assets Available for Benefits are translated into Canadian dollars at year-end exchange rates. Gains and losses arising from translation are included in the net unrealized increase (decrease) in fair value of investments.

Foreign currency denominated transactions, as well as the average cost of investments, are translated into Canadian dollars at the exchange rates in effect on the dates of the related transactions.

3. *INCOME TAXES*

The Plan was established for the administration of the registered pension plan of CPC and is not subject to income taxes.

4. *FUNDED STATUS*

The defined benefit segment of the Plan has an estimated actuarial deficit of $42,150,000 (2008 – $41,471,000) as at December 31, 2009 based upon approximate asset fair values of $223,850,000 (2008 – $207,699,000).

(in Canadian dollars)

5. *CAPITAL DISCLOSURES*

(a) Defined benefit segment

The main objective of the defined benefit segment of the Plan is to sustain a level of net assets available for benefits that will allow it to, over its life, meet pension obligations to Plan members as they become due. The Plan fulfils its primary objective by utilizing actuarial consultants, who triennially prepare an actuarial valuation of the Plan's accrued pension benefits, together with a level of funding (in addition to members' contributions) by the Plan Sponsor that meets regulatory requirements and, together with investment income earned on net assets available for benefits, will allow the Plan to continue to meet its pension obligations. The Plan is required to file audited financial statements annually with the Superintendent of Pensions of the Financial Institutions Commission (BC).

(b) Defined contribution segment

The main objective of the defined contributions segment of the Plan is to hold net assets available for benefits in members' accounts in accordance with regulatory requirements and invest them in accordance with asset allocation decisions made by individual members from the investment choices provided by the Plan. The obligation of the Plan is to distribute to the respective member the vested balance in their account, including investment income earned thereon, at the time of their retirement or earlier withdrawal as described in note 1.

6. *DEFINED BENEFIT SEGMENT*

Master Trust

Substantially all of the assets of the defined benefit segment of the Plan are invested in the Master Trust. At December 31, 2009, the Plan held 8,629,465 units of the Master Trust (2008 – 8,972,112 units) representing a 95.0% interest (2008 – 95.0%).

(a) Master Trust statement of net assets

As at December 31	*2009*	*2008*
Assets:		
Investments, at fair values:		
Fixed income funds	$ 90,522,424	$ 98,226,269
Equity pooled funds	140,829,771	109,236,691
Other equity investments	90	1,192
	231,352,285	207,464,152
Receivables:		
Foreign currency contracts	128,335,590	–
Proceeds from sale of investments	1,980,000	3,680,000
Cash	189,075	2,749,188
	361,856,950	213,893,340
Liabilities:		
Foreign currency contracts	(126,975,492)	–
Net assets of the Master Trust	$ 234,881,458	$ 213,893,340
The Plan's 95.0% (2008 – 95.0%) equity in net assets of the Master Trust	$ 223,179,452	$ 203,293,073

(in Canadian dollars)

6. *MASTER TRUST ... continued*

(b) **Master Trust statement of changes in net assets**

Year ended December 31	*2009*	*2008*
Investment income	$ 7,706,364	$ 9,370,846
Net realized loss on sale of investments	(32,479,623)	(1,703,811)
Net increase (decrease) in unrealized appreciation of investments	57,890,510	(58,392,660)
Employer contributions	12,768,482	18,646,596
Employee contributions	487,995	482,478
Other	4,650	–
	46,378,378	(31,596,551)
Benefit payments	(23,756,121)	(21,648,467)
Investment and administration expenses	(1,634,139)	(2,131,314)
	(25,390,260)	(23,779,781)
Increase (decrease) in net assets of the Master Trust	20,988,118	(55,376,332)
Net assets of the Master Trust, beginning of year	213,893,340	269,269,672
Net assets of the Master Trust, end of year	$ 234,881,458	$ 213,893,340
Increase (decrease) in the Plan's equity in net assets of the Master Trust	$ 19,886,379	$ (52,146,467)
Plan's equity in net assets of the Master Trust, beginning of year	203,293,073	255,439,540
The Plan's 95.0% (2008 – 95.0%) equity in net assets of the Master Trust	$ 223,179,452	$ 203,293,073

(c) **Investments of the Master Trust**

The fair values of the Master Trust's receivables and cash approximate their carrying values due to the short-term nature of these financial instruments.

(i) **Fixed income funds**

The following table summarizes the Master Trust's investments in fixed income funds at fair value and cost:

As at December 31	*2009*		*2008*	
	Fair value	*Cost*	*Fair value*	*Cost*
Phillips Hager & North Long Bond Pension Trust	$ 45,110,193	$ 46,481,431	$ 98,226,269	$ 103,428,330
Phillips Hager & North Bond Fund	45,412,231	44,759,515	–	–
	$ 90,522,424	$ 91,240,946	$ 98,226,269	$ 103,428,330

(in Canadian dollars)

6. *MASTER TRUST ... continued*

(ii) Equity pooled funds

The following table summarizes the Master Trust's investments in equity pooled funds at fair value and cost:

As at December 31	*2009*		*2008*	
	Fair value	*Cost*	*Fair value*	*Cost*
Fidelity Pyramis Canadian Core Equity Trust	$ 23,198,324	$ 26,749,316	$ 17,760,602	$ 28,998,724
Highstreet Canadian Equity Fund	23,244,786	25,677,341	17,988,453	26,389,102
Alliance Global Style Blend Fund	–	–	34,133,343	58,454,653
JP Morgan Global Intrepid Canada Fund	46,475,822	37,670,459	–	–
Sprucegrove Global Pooled Pension Fund	47,891,034	56,966,250	39,334,488	53,493,214
Vengrowth Capital Fund	19,805	247,992	19,805	247,992
	$ 140,829,771	$ 147,311,358	$ 109,236,691	$ 167,583,685

(iii) Other equity investments

The Master Trust holds other equity investments having a fair value of $90 (2008 – $1,192) and a cost of $0 (2008 – $182,567).

(in Canadian dollars)

7. DEFINED CONTRIBUTION SEGMENT

(a) The net assets of the defined contribution segment of the Plan as at December 31 are as follows:

As at December 31	*2009*	*2008*
Cash, receivables and payables	$ (2,443)	$ (2,112)
ML SEI Balanced 60/40	5,672,649	5,755,909
ML Leith Wheeler Dvsfd Pld	9,798,275	9,458,084
ML SEI Growth 80/20	1,061,886	985,116
ML SEI Growth 100	291,762	291,427
ML JF Canadian Equity	16,678,548	15,274,371
ML SEI Canadian Equity	6,244,578	195,775
PH&N Canadian Equity	–	4,652,618
ML BGI U.S. Equity Index	1,029,251	1,104,975
ML Fidelity Global Fund	1,200,287	1,061,535
ML Templeton Int'l Equity	3,700,308	3,789,486
PH&N Bond Fund	7,604,508	5,436,779
ML SEI Income 20/80	31,208	373,368
ML SEI Income 40/60	558,104	373,927
Manulife Guaranteed Interest A/C 3-Year GIA	1,595,696	1,617,264
Manulife Guaranteed Interest A/C 5-Year GIA	358,327	59,840
ML Canadian Money Market	8,785,921	11,306,577
	$ 64,608,865	$ 61,734,939

(b) The net investment gain (loss) of the defined contribution segment of the Plan for the years ended December 31 is as follows:

Year ended December 31	*2009*	*2008*
ML SEI Balanced 60/40	$ 957,225	$ (1,468,472)
ML Leith Wheeler Dvsfd Pld	1,457,695	(2,154,633)
ML SEI Growth 80/20	202,124	(348,129)
ML SEI Income Growth 100	43,339	(133,413)
ML JF Canadian Equity	3,793,850	(4,956,897)
ML SEI Canadian Equity	2,021,921	8,074
PH&N Canadian Equity	(184,716)	(2,846,516)
ML BGI U.S. Equity Index	71,326	(143,407)
ML Fidelity In't Portfolio	226,426	(619,794)
ML International Equity	–	(983,096)
ML Templeton Int'l Equity	588,836	(1,019,374)
ML MFC Gbl Pld US Index	–	(180,813)
PH&N Bond Fund	595,006	167,057
ML SEI Income 20/80	3,147	(12,833)
ML SEI Income 40/60	54,417	(75,331)
Manulife Guaranteed Interest A/C 3 Year GIA	65,901	28,419
Manulife Guaranteed Interest A/C 5 Year GIA	8,284	2,503
ML Canadian Money Market	133,043	354,310
	$ 10,037,824	$ (14,382,345)

(in Canadian dollars)

8. FINANCIAL INSTRUMENTS

(a) Fair value of financial instruments

Investments are held at fair value based on quoted market prices at year-end. In determining fair values, adjustments have not been made in respect of transaction costs as they are not considered to be significant.

The following table presents information about the fair value of Master Trust assets as of December 31, 2009:

	Total	Fair value hierarchy Level 1	Level 2	Level 3
Asset category				
Cash and cash equivalents	$ 2,169,000	$ 2,169,000	$ –	$ –
Equity securities:				
Global equity pooled funds[1]	94,387,000	–	94,387,000	–
Canadian equity pooled funds[2]	46,443,000	–	46,443,000	–
Fixed income securities:				
Canadian long bond pooled funds[3]	45,110,000	–	45,110,000	–
Canadian bond pooled funds[4]	45,412,000	–	45,412,000	–
Forward currency contracts[5]	1,360,000	–	1,360,000	–
Total	$ 234,881,000	$ 2,169,000	$ 232,712,000	$ –

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 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.

4 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.

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

The carrying values of cash, contributions receivable, paid-up life contracts and investment and administrative expenses payable approximate fair values due to their short-term nature.

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.

(b) Financial risk management

The Plan is exposed to various types of risks that are associated with its investment strategies, financial instruments, and markets in which it invests. The risks include market risk (including currency risk, interest rate risk, and other price risk), credit risk and liquidity risk.

8. FINANCIAL INSTRUMENTS... continued

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, currency exchange rates, interest rates, and other variables. The investments of the Plan are subject to normal market fluctuations and the risks inherent in investment in financial markets. For the defined benefit segment, the Plan's investment managers moderate this risk through careful selection of securities and through diversification of the Plan's investments within specified limits. The Plan's overall market performance is monitored on a quarterly basis by the Retirement Plan Committee. For the defined contribution segment, contributions are invested in specific funds based on choices made by the individual plan members.

Currency risk

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Plan, will fluctuate due to changes in foreign exchange rates. Equities in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Plan's functional currency in determining fair value.

The Plan holds assets and liabilities, including cash and equities that are denominated in currencies other than the Canadian dollar, the functional currency. It is, therefore, exposed to currency risk, as the value of the securities denominated in other currencies fluctuate due to changes in exchange rates. Sensitivity analysis is presented for significant foreign currency investments. Actual results may differ and the difference could be material.

Interest rate risk

Interest rate risk is the risk that the value of interest-bearing financial instruments, such as bonds, will fluctuate due to changes in the levels of market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The Plan's interest rate risk exposure is primarily related to underlying investments in long-term corporate and government bonds. For the majority of equity funds, interest rate risk is minimal as the underlying investments in these funds are non-interest bearing. Sensitivity analysis is presented for significant interest-bearing investments. Actual results may differ and the difference could be material.

Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate risk) whether they are caused by factors specific to an individual investment, its issuer, or by factors affecting all instruments traded in the market. The Plan's exposure to other price risk arises from its investments in equity securities, through directly held securities and through pooled investment funds.

Credit risk

Credit risk is the risk that the Plan will suffer financial loss because a security issuer or counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Plan. Credit risk for the Plan is managed by investing in low risk pooled investment funds and high quality securities. Where the Plan invests in funds with debt instruments, credit ratings are obtained by the funds from Standard & Poor's, Moody's, Fitch and/or Dominion Bond Rating Services. Where one or more rating is obtained for a security, the most common rating is used in the credit risk assessment.

(in Canadian dollars)

8. *FINANCIAL INSTRUMENTS... continued*

Liquidity risk

Liquidity risk is the risk that the Plan will not be able to meet its financial obligations as they become due. The Plan is exposed to daily cash redemptions of redeemable units. Liquidity risk also exists when a particular instrument is difficult to purchase or sell. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed. In addition, the Plan aims to retain sufficient cash and cash equivalent positions to maintain liquidity. The majority of the Plan's investments are considered readily realizable and highly liquid; therefore, the Plan's liquidity risk is considered minimal for all Plan assets.

Where a market, credit, or liquidity risk is not specifically discussed in relation to the defined benefit or defined contribution segments of the Plan's assets, the risk has been assessed as having minimal potential impact on the Plan's investment in the related fund.

Specific risks and sensitivities associated with the defined benefit and defined contribution segments of the Plan respectively are presented below:

Defined benefit segment

Currency Risk

At December 31, the Canadian dollar equivalent of the currency exposures in the Master Trust were as follows:

	2009	2008
United States Dollar	43,340,675	35,515,363
Euro	13,920,002	10,555,477
Japanese Yen	10,765,845	6,356,916
British Pound	8,396,716	6,509,542
Swiss Franc	5,425,963	4,228,461
Other	9,849,782	7,200,652
Total investments held in foreign currencies (CAD$ equivalent)	91,698,983	70,366,411

If the exchange rate between the Canadian dollar and the foreign currencies that the defined benefit segment of the Plan is exposed to increased or decreased by 1%, with all other variables held constant, net assets available for the defined benefit segment would have increased or decreased, respectively, by $871,538 at December 31, 2009 (2008 – $668,481).

Interest rate risk

The table below summarizes the Master trust's exposure to interest rate risks by remaining term to maturity for fixed income instruments as of December 31, 2009:

	< 1 year	1-5 years	5-10 years	> 10 years	Total
2009	$ 2,046,200	$ 14,994,465	$ 20,348,043	$ 53,133,716	$ 90,522,424
2008	$ 678,316	$ 34,940,899	$ 32,069,115	$ 30,537,939	$ 98,226,269

As at December 31, 2009, if the prevailing interest rates had been increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets available for the defined benefit segment of the Plan could possibly have decreased or increased, respectively, by approximately 8.9% or $7,578,411 (2008 – 5.7% or $5,318,952). The interest rate sensitivity was determined based on portfolio weighted duration.

8. *FINANCIAL INSTRUMENTS... CONTINUED*

Other price risk

At December 31, 2009, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, net assets available for benefits would have increased or decreased, respectively, by approximately $13,211,851 (2008 – $10,377,486).

Credit risk

The credit ratings of the Master Trust's underlying fund's fixed income investments as at December 31, 2009, are as follows: AAA – 18.8%; AA – 39.2%; A – 34.3%; BBB – 5.2%; D – 0.1%; Unrated – 2.4% (2008 – AAA – 11.7%; AA – 62.6%; A – 20.0%; BBB – 0.1%; Unrated – 5.6%). Underlying investments in mortgages within pooled fixed income funds are not rated; however, they are all Canadian Housing and Mortgage Corporation guaranteed mortgages and therefore have the backing of an AAA rate issuer.

Defined contribution segment

Currency Risk

Currency risk associated with the defined contribution segment of the Plan is considered minimal as the majority of the underlying investments are denominated in Canadian dollars.

Interest rate risk

In relation to the defined contribution segment of the Plan's investment in the Leith Wheeler Diversified Pooled Fund, as at December 31, 2009, had prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the Plan's portion of net assets would have decreased or increased, respectively, by approximately $189,122 (2008 – $163,393). The Plan's sensitivity to interest rate changes was estimated using the weighted average duration of the bond portfolio.

In relation to the Plan's investment in the PH&N Bond Fund, as at December 31, 2009, if the prevailing interest rates had been increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets could possibly have decreased or increased, respectively, by approximately $436,405 (2008 – $309,896). The Plan's interest rate sensitivity was determined based on portfolio weighted duration.

Other price risk

With respect to the defined contribution segment of the Plan's investment in the Jarislowsky, Fraser Canadian Equity Fund, if the S&P/TSX Composite index had increased or decreased by 5% at December 31, 2009, with all other variables held constant, this would have increased or decreased the Plan's portion of the net assets by approximately $539,382 (2008 – $423,301).

In respect of the defined contribution segment of the Plan's investment in the ML SEI Balanced 60/40 Fund, as at December 31, 2009, a 5% change in prices on the underlying funds would have changed the Plan's portions of the net assets by $282,913 (2008 – $334,580) with all other factors held constant.

In relation to the defined contribution segment of the Plan's investment in the Leith Wheeler Diversified Pooled Fund, as at December 31, 2009, had the prices on the respective stock exchanges for the underlying securities increased or decreased by 10%, with all other variables held constant, the Plan's portion of net assets would have increased or decreased, respectively, by approximately $622,173 (2008 – $576,849).

In practice, the actual results may differ from these sensitivity analyses and the differences could be material.

(in Canadian dollars)

9. *OBLIGATION FOR PENSION BENEFITS ... CONTINUED*

(a) Defined benefit segment

The present value of accrued pension benefits for the defined benefit segment of the Plan as at December 31, 2009 and December 31, 2008, respectively, were determined in accordance with Section 3461 of the Canadian Institute of Chartered Accountants Handbook using the projected benefit method prorated on services, and were prepared by Towers Watson HR Services, a firm of consulting actuaries.

The actuarial present value of accrued pension benefits for the defined benefit segment of the Plan as at December 31 and the principal components of changes in the actuarial present value during the years were as follows:

	2009	*2008*
Actuarial present value of accrued pension benefits for the defined benefit segment of the Plan, beginning of year	$ 249,170,000	$ 291,932,000
Interest accrued on benefits	16,740,000	14,898,000
Benefits accrued	2,096,000	3,629,000
Benefits paid	(22,498,000)	(20,144,000)
Actuarial gain (loss)	20,492,000	(41,145,000)
Actuarial present value of accrued pension benefits for the defined benefit segment of the Plan, end of year	$ 266,000,000	$ 249,170,000

The assumptions used in determining the actuarial present value of accrued pension benefits for the Plan as at December 31, 2009 and December 31, 2008 were based on economic assumptions as of December 31, 2009 and December 31, 2008, respectively, which were based on best-estimate assumptions for the long-term. Significant actuarial assumptions used in the determination of the present value of accrued pension benefits at December 31 were:

	2009	*2008*
Discount rate	6.00%	7.00%
Annual salary escalation rates	2.00%	2.50%

(b) Defined contribution segment

The Plan's obligation with respect to the defined contribution segment is equivalent to the net assets related to that segment at any point in time.

This is Exhibit "F" referred to in the affidavit of Deborah Hamann-Trou sworn before me at Vancouver this 17th day of June, 2012.

A Commissioner for taking Affidavits for British Columbia

Final

CATALYST PAPER CORPORATION

RETIREMENT PLAN FOR SALARIED EMPLOYEES

FINANCIAL STATEMENTS

For the Years Ended December 31, 2010 and 2009

KPMG

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Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Retirement Plan Committee of the Catalyst Paper Corporation Retirement Plan for Salaried Employees

We have audited the accompanying financial statements of the Catalyst Paper Corporation Retirement Plan for Salaried Employees, which comprise the statement of net assets available for benefits as at December 31, 2010, the statement of changes in net assets available for benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sponsor's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the statement of net assets available for benefits of the Catalyst Paper Corporation Retirement Plan for Salaried Employees as at December 31, 2010, and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

July 25, 2011
Vancouver, Canada

CATALYST PAPER CORPORATION
RETIREMENT PLAN FOR SALARIED EMPLOYEES

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
(in Canadian dollars)

As at December 31	*2010*	*2009*
Net assets of the defined benefit segment of the Plan:		
Equity in the Master Trust (note 6(a))	$ 227,960,245	$ 223,179,452
Contributions receivable:		
Employer	923,286	953,436
Employee	2,348	21,512
Paid-up life contracts	–	26,000
	228,885,879	224,180,400
Investment and administrative expenses payable	(445,965)	(330,548)
	228,439,914	223,849,852
Net assets of the defined contribution segment of the Plan (note 7(a))	56,259,649	64,608,865
Net assets available for benefits	$ 284,699,563	$ 288,458,717

Obligation for defined benefit pension plans (note 9)

See accompanying notes to financial statements.

On behalf of the Retirement Plan Committee administering the Catalyst Paper Corporation Retirement Plan for Salaried Employees:

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CATALYST PAPER CORPORATION
RETIREMENT PLAN FOR SALARIED EMPLOYEES

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
(in Canadian dollars)

Years ended December 31	*2010*	*2009*
Defined benefit segment of the Plan:		
Increase in assets:		
Net gain on investments in the Master Trust	$ 25,035,299	$ 31,434,583
Employer contributions	4,112,137	8,393,044
Employee contributions	48,014	479,775
Increase in paid-up life contracts	–	2,000
Other receipts	–	4,650
	29,195,450	40,314,052
Decrease in assets:		
Benefit and termination payments	(22,872,855)	(22,498,236)
Investment and administration expenses	(1,706,533)	(1,664,777)
Decrease in paid-up life contracts	(26,000)	–
	(24,605,388)	(24,163,013)
Net increase in defined benefit segment of the Plan	4,590,062	16,151,039
Defined contribution segment of the Plan:		
Increase in assets:		
Net gain on investments (note 7(b))	4,555,245	10,037,824
Employer contributions	2,247,100	3,735,229
Other transfers	8,993	–
	6,811,338	13,773,053
Decrease in assets:		
Investment management fees	(18,692)	(19,005)
Payments and transfers to terminated and retired employees	(15,141,862)	(10,880,122)
	(15,160,554)	(10,899,127)
Net increase (decrease) in defined contribution segment of the Plan	(8,349,216)	2,873,926
Increase (decrease) in net assets available for benefits	(3,759,154)	19,024,965
Net assets available for benefits, beginning of year	288,458,717	269,433,752
Net assets available for benefits, end of year	$ 284,699,563	$ 288,458,717

See accompanying notes to financial statements.

CATALYST PAPER CORPORATION
RETIREMENT PLAN FOR SALARIED EMPLOYEES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(in Canadian dollars)

1. DESCRIPTION OF PLAN

Effective January 1, 2004, the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Catalyst Salaried Plan") was combined with the Catalyst Paper Corporation Defined Benefit Retirement Plan for Former Pacifica Papers Inc. Employees (the "Pacifica DB Plan") to form the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "Plan").

The Plan is a registered pension plan in the province of British Columbia under registration number P085400. The Plan comprises both defined benefit and defined contribution segments and provides pension benefits to all salaried employees of Catalyst Paper Corporation and its wholly-owned subsidiaries and partnership ("CPC" or the "Sponsor" or the "Employer").

The incorporation of the defined contribution provisions into the Catalyst Salaried Plan was effective January 1, 1994. Prior to that date each employee who was actively employed on December 31, 1993 was required either to make an irrevocable election to remain a defined benefit member accruing defined benefits under the Catalyst Salaried Plan, or become a defined contribution member accruing defined contribution pension benefits under the Catalyst Salaried Plan. After January 1, 1994, each new employee who is eligible to become a Plan member automatically becomes a defined contribution member.

The following description of the Plan is a summary only. For more complete information, reference should be made to the Plan document.

(a) Defined benefit segment

Funding Policy

CPC funds the defined benefit segment of the Plan based on actuarial estimates performed at least triennially to be adequate to provide for the Plan benefits accruing in that Plan year and to fund, in accordance with applicable pension laws, any unfunded actuarial liability which may exist under the Plan. Members participating in enhanced options of the Plan are required to make contributions relating to certain periods of contributory credited service. Member contributions are determined as a percentage of base salary and are based on the option selected and employee's age. These contributions are accumulated and used to provide benefits on retirement.

In October 2009, the B.C. Superintendent of Pensions granted a five-year extension to the time period within which amortization payments for solvency deficiencies are required to be made with respect to the defined benefit segment of the Plan. 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.

Benefits

The defined benefit segment of the Plan provides for normal, early, postponed and disability retirement benefits. Retirement income in respect of defined benefit Plan members is calculated in accordance with formulas in the Plan. Effective January 1, 2010, employees in the defined benefit plan ceased to accrue benefits under the defined benefit segment of the plan and began to participate in the defined contribution segment of the plan. 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.

(b) Defined contribution segment

Funding Policy

CPC contributes to the defined contribution segment of the Plan at a rate of 5% of members' monthly earnings. Effective January 1, 2010, the CPC contribution rate was reduced from 7% to 5% of pensionable earnings. CPC may, subject to applicable pension laws, provide for the required contributions to be made to the defined contribution segment of the Plan from existing surplus assets in the defined benefit segment of the Plan. No contributions are required or permitted to be made under the Plan by any member.

1. *DESCRIPTION OF PLAN ... continued*

Investment Options

Defined contribution plan members select where their account balances are invested, in accordance with the investment options and administrative practices offered by CPC.

Benefits

Defined contribution plan members are entitled to the distribution of the value of their accounts following retirement, termination or death.

2. *SIGNIFICANT ACCOUNTING POLICIES*

(a) Basis of presentation

These financial statements are prepared on the going concern basis and present the information of the Plan as a separate financial reporting entity independent of the Sponsor and Plan members. They are prepared to assist the Sponsor and others in reviewing the activities of the Plan for the period, but they do not portray the funding requirements of the Plan or the benefit security of the individual Plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from these estimates.

(b) Changes in accounting policies

Effective December 31, 2009, the Plan adopted the amendments to the CICA Handbook Section 3862, Financial Instruments – Disclosures. These amendments require the Plan to present information about financial instruments measured at fair value in accordance with a three level hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices observed in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

Level 3 – valuation techniques with significant unobservable market inputs.

The level within which financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The additional disclosures as a result of adopting these sections have been detailed in note 8.

2. *SIGNIFICANT ACCOUNTING POLICIES ... continued*

(c) Investments

The defined benefit segment of the Plan invests solely in the CPC Master Trust (the "Master Trust"). The investment in the Master Trust is accounted for using the equity method. Investments in the defined benefit segment of the Plan are valued at the unit values supplied by the Master Trust administrator, which value represents the Plan's proportionate share of underlying net assets at fair values determined using closing market prices.

The defined contribution segment of the Plan invests in a series of pooled funds under the supervision of an investment manager. Investments in the defined contribution segment of the Plan are stated at fair market value.

The change in the difference between the fair value and cost of investments at the beginning and end of each year for each segment of the Plan is included in net gain or loss on investments for the respective segment in the Statement of Changes in Net Assets Available for Benefits.

Investments in short-term notes, shares, bonds and debentures and pooled funds are carried at quoted year-end market value.

(d) Investment income

Investment income for the Plan, which is recorded on the accrual basis, includes interest income and dividends, realized gains and losses, and the change in unrealized appreciation of investments.

(e) Foreign currency translation

The fair values of foreign currency denominated investments included in the Statement of Net Assets Available for Benefits are translated into Canadian dollars at year-end exchange rates. Gains and losses arising from translation are included in the net unrealized increase (decrease) in fair value of investments.

Foreign currency denominated transactions, as well as the average cost of investments, are translated into Canadian dollars at the exchange rates in effect on the dates of the related transactions.

3. *INCOME TAXES*

The Plan was established for the administration of the registered pension plan of CPC and is not subject to income taxes.

4. *FUNDED STATUS*

The defined benefit segment of the Plan has an estimated actuarial deficit of $60,557,000 (2009 – $42,150,000) as at December 31, 2010 based upon approximate asset fair values of $228,440,000 (2009 – $223,850,000).

(in Canadian dollars)

5. *CAPITAL DISCLOSURES*

(a) Defined benefit segment

The main objective of the defined benefit segment of the Plan is to sustain a level of net assets available for benefits that will allow it to, over its life, meet pension obligations to Plan members as they become due. The Plan fulfils its primary objective by utilizing actuarial consultants, who triennially prepare an actuarial valuation of the Plan's accrued pension benefits, together with a level of funding (in addition to members' contributions) by the Plan Sponsor that meets regulatory requirements and, together with investment income earned on net assets available for benefits, will allow the Plan to continue to meet its pension obligations. The Plan is required to file audited financial statements annually with the Superintendent of Pensions of the Financial Institutions Commission (BC).

(b) Defined contribution segment

The main objective of the defined contributions segment of the Plan is to hold net assets available for benefits in members' accounts in accordance with regulatory requirements and invest them in accordance with asset allocation decisions made by individual members from the investment choices provided by the Plan. The obligation of the Plan is to distribute to the respective member the vested balance in their account, including investment income earned thereon, at the time of their retirement or earlier withdrawal as described in note 1.

6. *DEFINED BENEFIT SEGMENT*

Master Trust

Substantially all of the assets of the defined benefit segment of the Plan are invested in the Master Trust. At December 31, 2010, the Plan held 7,910,362 units of the Master Trust (2009 – 8,629,465 units) representing a 95.0% interest (2009 – 95.0%).

(a) Master Trust statement of net assets

As at December 31	*2010*	*2009*
Assets:		
Investments, at fair values:		
Fixed income funds	$ 90,589,636	$ 90,522,424
Equity pooled funds	146,560,988	140,829,771
Other equity investments	52	90
	237,150,676	231,352,285
Receivables:		
Foreign currency contracts (net)	674,291	1,360,098
Proceeds from sale of investments	2,120,000	1,980,000
Cash	66,023	189,075
Net assets of the Master Trust	$ 240,010,990	$ 234,881,458
The Plan's 95.0% (2009 – 95.0%) equity in net assets of the Master Trust	$ 227,960,245	$ 223,179,452

CATALYST PAPER CORPORATION
RETIREMENT PLAN FOR SALARIED EMPLOYEES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(in Canadian dollars)

6. ***DEFINED BENEFIT SEGMENT** ... continued*

(b) **Master Trust statement of changes in net assets**

Year ended December 31	*2010*	*2009*
Investment income	$ 7,007,866	$ 7,706,364
Net realized gain (loss) on sale of investments	2,924,247	(32,479,623)
Net increase in unrealized appreciation of investments	16,423,223	57,890,510
Employer contributions	4,443,071	12,768,482
Employee contributions	67,178	487,995
Other	-	4,650
	30,865,585	46,378,378
Deduct:		
Benefit payments	(24,037,667)	(23,756,121)
Investment and administration expenses	(1,698,386)	(1,634,139)
	(25,736,053)	(25,390,260)
Increase in net assets of the Master Trust	5,129,532	20,988,118
Net assets of the Master Trust, beginning of year	234,881,458	213,893,340
Net assets of the Master Trust, end of year	$ 240,010,990	$ 234,881,458
Increase in the Plan's equity in net assets of the Master Trust	$ 4,780,793	$ 19,886,379
Plan's equity in net assets of the Master Trust, beginning of year	223,179,452	203,293,073
The Plan's 95.0% (2009 – 95.0%) equity in net assets of the Master Trust	$ 227,960,245	$ 223,179,452

(c) **Investments of the Master Trust**

The fair values of the Master Trust's receivables and cash approximate their carrying values due to the short-term nature of these financial instruments.

(i) **Fixed income pooled funds**

The following table summarizes the Master Trust's investments in fixed income pooled funds at fair value and cost:

As at December 31	*2010*		*2009*	
	Market	*Cost*	*Market*	*Cost*
Phillips Hager & North Long Bond Pension Trust	$ 45,291,396	$ 43,467,940	$ 45,110,193	$ 46,481,431
Phillips Hager & North Bond Fund	$ 45,298,240	$ 43,936,457	$ 45,412,231	44,759,515
	$ 90,589,636	$ 87,404,397	$ 90,522,424	$ 91,240,946

(in Canadian dollars)

6. *DEFINED BENEFIT SEGMENT ... continued*

(ii) Equity pooled funds

The following table summarizes the Master Trust's investments in equity pooled funds at fair value and cost:

As at December 31	*2010*		*2009*	
	Market	*Cost*	*Market*	*Cost*
Fidelity Pyramis Canadian Core Equity Trust	$ 24,867,722	$ 24,679,386	$ 23,198,324	$ 26,749,316
Highstreet Canadian Equity Fund	25,244,102	24,638,630	23,244,786	25,677,341
JP Morgan Global Intrepid Canada Fund	48,081,067	36,815,055	46,475,822	37,670,459
Sprucegrove Global Pooled Pension Fund	48,348,292	53,456,205	47,891,034	56,966,250
Vengrowth Capital Fund	19,805	247,992	19,805	247,992
	$ 146,560,988	$ 139,837,268	$ 140,829,771	$ 147,311,358

(iii) Other equity investments

The Master Trust holds other equity investments having a fair value of $52 (2009 – $90) and a cost of $0 (2009 – $0).

CATALYST PAPER CORPORATION
RETIREMENT PLAN FOR SALARIED EMPLOYEES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(in Canadian dollars)

7. ***DEFINED CONTRIBUTION SEGMENT***

(a) The net assets of the defined contribution segment of the Plan as at December 31 are as follows:

As at December 31	*2010*	*2009*
Cash, receivables and payables	$ (2,443)	$ (2,443)
Guaranteed Interest A/C 3 year GIA	1,297,098	1,595,696
Guaranteed Interest A/C 5 year GIA	724,143	358,327
ML Retirement Income	34	–
ML Retirement Date 2015	109,679	–
ML Retirement Date 2020	56,322	–
ML Retirement Date 2025	1,337	–
ML Retirement Date 2030	1,303	–
ML Retirement Date 2040	2,096	–
ML Retirement Date 2050	34	–
ML SEI Income 20/80	281,767	31,208
ML SEI Income 40/60	505,486	558,104
ML SEI Balanced 60/40	5,675,081	5,672,649
ML SEI Growth 80/20	884,636	1,061,886
ML SEI Global Growth 100	217,995	291,762
ML Canadian Money Market	7,747,338	8,785,921
ML PH&N Bond Fund	6,323,750	7,604,508
ML Leith Wheeler Dvsfd Pld	8,540,129	9,798,275
ML JF Canadian Equity Fund	12,975,458	16,678,548
ML SEI Canadian Equity	6,196,740	6,244,578
ML BR U.S. Equity Index	1,037,674	1,029,251
ML Templeton Int'l Equity	2,766,913	3,700,308
ML Fidelity Global Fund	917,079	1,200,287
	$ 56,259,649	$ 64,608,865

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(in Canadian dollars)

7. ***DEFINED CONTRIBUTION SEGMENT***... *continued*

(b) The net investment gain (loss) of the defined contribution segment of the Plan for the years ended December 31 is as follows:

Year ended December 31		*2010*		*2009*
Guaranteed Interest A/C 3 year GIA	$	47,489	$	65,901
Guaranteed Interest A/C 5 year GIA		23,271		8,284
ML Retirement Income		0		–
ML Retirement Date 2015		2,486		–
ML Retirement Date 2020		798		–
ML Retirement Date 2025		17		–
ML Retirement Date 2030		17		–
ML Retirement Date 2040		47		–
ML Retirement Date 2050		1		–
ML SEI Income 20/80		28,048		3,147
ML SEI Income 40/60		36,192		54,417
ML SEI Balanced 60/40		564,184		957,225
ML SEI Growth 80/20		104,247		202,124
ML SEI Global Growth 100		21,841		43,339
ML Canadian Money Market		64,919		133,043
ML PH&N Bond Fund		492,928		595,006
ML Leith Wheeler Dvsfd Pld		906,510		1,457,695
ML JF Canadian Equity Fund		1,290,323		3,793,850
ML SEI Canadian Equity		919,867		2,021,921
ML PH&N Canadian Equity		–		(184,716)
ML BR U.S. Equity Index		82,560		71,326
ML Templeton Int'l Equity		(61,997)		588,836
ML Fidelity Global Fund		31,497		226,426
	$	4,555,245	$	10,037,824

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8. *FINANCIAL INSTRUMENTS*

(a) Fair value of financial instruments

Investments are held at fair value based on quoted market prices at year-end. In determining fair values, adjustments have not been made in respect of transaction costs as they are not considered to be significant.

The following table presents information about the fair value of Master Trust assets as of December 31, 2010:

		Fair value hierarchy		
	Total	Level 1	Level 2	Level 3
Asset category				
Cash and cash equivalents	$ 2,186,000	$ 2,186,000	$ –	$ –
Equity securities:				
Global equity pooled funds[1]	96,449,000	–	96,449,000	–
Canadian equity pooled funds[2]	50,112,000	–	50,112,000	–
Fixed income securities:				
Canadian long bond pooled funds[3]	45,292,000	–	45,292,000	–
Canadian bond pooled funds[4]	45,298,000	–	45,298,000	–
Forward currency contracts (net)[5]	674,000	–	674,000	–
Total	$ 240,011,000	$ 2,186,000	$ 237,825,000	$ –

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 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.

4 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 corporations 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.

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

(in Canadian dollars)

8. *FINANCIAL INSTRUMENTS... continued*

The following table presents information about the fair value of Master Trust assets as of December 31, 2009:

		Fair value hierarchy		
	Total	Level 1	Level 2	Level 3
Asset category				
Cash and cash equivalents	$ 2,169,000	$ 2,169,000	$ –	$ –
Equity securities:				
Global equity pooled funds[1]	94,387,000	–	94,387,000	–
Canadian equity pooled funds[2]	46,443,000	–	46,443,000	–
Fixed income securities:				
Canadian long bond pooled funds[3]	45,110,000	–	45,110,000	–
Canadian bond pooled funds[4]	45,412,000	–	45,412,000	–
Forward currency contracts (net)[5]	1,360,000	–	1,360,000	–
Total	$ 234,881,000	$ 2,169,000	$ 232,712,000	$ –

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 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.

4 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 corporations 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.

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

The carrying values of cash, contributions receivable, paid-up life contracts and investment and administrative expenses payable approximate fair values due to their short-term nature.

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.

(b) Financial risk management

The Plan is exposed to various types of risks that are associated with its investment strategies, financial instruments, and markets in which it invests. The risks include market risk (including currency risk, interest rate risk, and other price risk), credit risk and liquidity risk.

8. *FINANCIAL INSTRUMENTS... continued*

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, currency exchange rates, interest rates, and other variables. The investments of the Plan are subject to normal market fluctuations and the risks inherent in investment in financial markets. For the defined benefit segment, the Plan's investment managers moderate this risk through careful selection of securities and through diversification of the Plan's investments within specified limits. The Plan's overall market performance is monitored on a quarterly basis by the Retirement Plan Committee. For the defined contribution segment, contributions are invested in specific funds based on choices made by the individual plan members.

Currency risk

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Plan, will fluctuate due to changes in foreign exchange rates. Equities in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Plan's functional currency in determining fair value.

The Plan holds assets and liabilities, including cash and equities that are denominated in currencies other than the Canadian dollar, the functional currency. It is, therefore, exposed to currency risk, as the value of the securities denominated in other currencies fluctuate due to changes in exchange rates. Sensitivity analysis is presented for significant foreign currency investments. Actual results may differ and the difference could be material.

Interest rate risk

Interest rate risk is the risk that the value of interest-bearing financial instruments, such as bonds, will fluctuate due to changes in the levels of market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The Plan's interest rate risk exposure is primarily related to underlying investments in long-term corporate and government bonds. For the majority of equity funds, interest rate risk is minimal as the underlying investments in these funds are non-interest bearing. Sensitivity analysis is presented for significant interest-bearing investments. Actual results may differ and the difference could be material.

Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate risk) whether they are caused by factors specific to an individual investment, its issuer, or by factors affecting all instruments traded in the market. The Plan's exposure to other price risk arises from its investments in equity securities, through directly held securities and through pooled investment funds.

Credit risk

Credit risk is the risk that the Plan will suffer financial loss because a security issuer or counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Plan. Credit risk for the Plan is managed by investing in low risk pooled investment funds and high quality securities. Where the Plan invests in funds with debt instruments, credit ratings are obtained by the funds from Standard & Poor's, Moody's, Fitch and/or Dominion Bond Rating Services. Where one or more rating is obtained for a security, the most common rating is used in the credit risk assessment.

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8. *FINANCIAL INSTRUMENTS... continued*

Liquidity risk

Liquidity risk is the risk that the Plan will not be able to meet its financial obligations as they become due. The Plan is exposed to daily cash redemptions of redeemable units. Liquidity risk also exists when a particular instrument is difficult to purchase or sell. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed. In addition, the Plan aims to retain sufficient cash and cash equivalent positions to maintain liquidity. The majority of the Plan's investments are considered readily realizable and highly liquid; therefore, the Plan's liquidity risk is considered minimal for all Plan assets.

Where a market, credit, or liquidity risk is not specifically discussed in relation to the defined benefit or defined contribution segments of the Plan's assets, the risk has been assessed as having minimal potential impact on the Plan's investment in the related fund.

Specific risks and sensitivities associated with the defined benefit and defined contribution segments of the Plan respectively are presented below:

Defined benefit segment

Currency Risk

At December 31, the Canadian dollar equivalent of the currency exposures in the Master Trust were as follows:

	2010	2009
United States Dollar	46,119,469	43,340,675
Euro	12,255,465	13,920,002
British Pound	10,496,661	10,765,845
Japanese Yen	8,109,446	8,396,716
Swiss Franc	5,228,405	5,425,963
Other	11,890,963	9,849,782
Total investments held in foreign currencies (CAD$ equivalent)	94,100,409	91,698,983

If the exchange rate between the Canadian dollar and the foreign currencies that the defined benefit segment of the Plan is exposed to increased or decreased by 1%, with all other variables held constant, net assets available for the defined benefit segment would have increased or decreased, respectively, by $893,879 at December 31, 2010 (2009 – $871,538).

Interest rate risk

The table below summarizes the Master trust's exposure to interest rate risks by remaining term to maturity for fixed income instruments as of December 31:

	< 1 year	1-5 years	5-10 years	> 10 years	Total
2010	$ 1,223,032	$ 14,132,935	$ 20,745,923	$ 54,487,746	$ 90,589,636
2009	$ 2,046,200	$ 14,994,465	$ 20,348,043	$ 53,133,716	$ 90,522,424

As at December 31, 2010, if the prevailing interest rates had been increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets available for the defined benefit segment of the Plan could possibly have decreased or increased, respectively, by approximately $7,614,402 (2009 – $7,578,411). The interest rate sensitivity was determined based on portfolio weighted duration.

8. *FINANCIAL INSTRUMENTS... CONTINUED*

Other price risk

At December 31, 2010, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, net assets available for benefits would have increased or decreased, respectively, by approximately $13,823,307 (2009 – $13,211,851).

Credit risk

The credit ratings of the Master Trust's underlying fund's fixed income investments as at December 31, 2010, are as follows: AAA – 15.3%; AA – 39.2%; A – 34.4%; BBB – 8.5%; BB – 0.2%; D – 0.1%; Unrated – 2.3% (2009 – AAA – 18.8%; AA – 39.2%; A – 34.3%; BBB – 5.2%; D – 0.1%; Unrated – 2.4%). Underlying investments in mortgages within pooled fixed income funds are not rated; however, they are all Canadian Housing and Mortgage Corporation guaranteed mortgages and therefore have the backing of an AAA rate issuer.

Defined contribution segment

Currency Risk

Currency risk associated with the defined contribution segment of the Plan is considered minimal as the majority of the underlying investments are denominated in Canadian dollars.

Interest rate risk

In relation to the defined contribution segment of the Plan's investment in the Leith Wheeler Diversified Pooled Fund, as at December 31, 2010, had prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the Plan's portion of net assets would have decreased or increased, respectively, by approximately $174,378 (2009 – $189,122). The Plan's sensitivity to interest rate changes was estimated using the weighted average duration of the bond portfolio.

In relation to the defined contribution segment of the Plan's investment in the PH&N Bond Fund, as at December 31, 2010, if the prevailing interest rates had been increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets could possibly have decreased or increased, respectively, by approximately $370,287 (2009 – $436,405). The Plan's interest rate sensitivity was determined based on portfolio weighted duration.

Other price risk

With respect to the defined contribution segment of the Plan's investment in the Jarislowsky, Fraser Canadian Equity Fund, if the S&P/TSX Composite index had increased or decreased by 5% at December 31, 2010, with all other variables held constant, this would have increased or decreased the Plan's portion of the net assets by approximately $446,699 (2009 – $539,382).

In respect of the defined contribution segment of the Plan's investment in the ML SEI Balanced 60/40 Fund, as at December 31, 2010, a 5% change in prices on the underlying funds would have changed the Plan's portions of the net assets by $174,572 (2009 – $282,913) with all other factors held constant.

In relation to the defined contribution segment of the Plan's investment in the Leith Wheeler Diversified Pooled Fund, as at December 31, 2010, had the prices on the respective stock exchanges for the underlying securities increased or decreased by 10%, with all other variables held constant, the Plan's portion of net assets would have increased or decreased, respectively, by approximately $547,927 (2009 – $622,173).

In respect of the defined contribution segment of the Plan's investment in the ML SEI Canadian Equity Fund, as at December 31, 2010, a 10% change in prices on the underlying funds would have changed the Plan's portions of the net assets by $610,069 (2009 – $613,708) with all other factors held constant.

(in Canadian dollars)

8. *FINANCIAL INSTRUMENTS... CONTINUED*

In practice, the actual results may differ from these sensitivity analyses and the differences could be material.

9. *OBLIGATION FOR PENSION BENEFITS*

(a) Defined benefit segment

The present value of accrued pension benefits for the defined benefit segment of the Plan as at December 31, 2010 and December 31, 2009, respectively, were determined in accordance with Section 3461 of the Canadian Institute of Chartered Accountants Handbook using the projected benefit method prorated on services, and were prepared by Towers Watson HR Services, a firm of consulting actuaries.

The actuarial present value of accrued pension benefits for the defined benefit segment of the Plan as at December 31 and the principal components of changes in the actuarial present value during the years were as follows:

	2010	*2009*
Actuarial present value of accrued pension benefits for the defined benefit segment of the Plan, beginning of year	$ 266,000,000	$ 249,170,000
Interest accrued on benefits	15,292,000	16,740,000
Benefits accrued	280,000	2,096,000
Benefits paid	(22,873,000)	(22,498,000)
Actuarial loss	30,298,000	20,492,000
Actuarial present value of accrued pension benefits for the defined benefit segment of the Plan, end of year	$ 288,997,000	$ 266,000,000

The assumptions used in determining the actuarial present value of accrued pension benefits for the Plan as at December 31, 2010 and December 31, 2009 were based on economic assumptions as of December 31, 2010 and December 31, 2009, respectively, which were based on best-estimate assumptions for the long-term. Significant actuarial assumptions used in the determination of the present value of accrued pension benefits at December 31 were:

	2010	*2009*
Discount rate	5.00%	6.00%
Annual salary escalation rates	2.00%	2.00%

(b) Defined contribution segment

The Plan's obligation with respect to the defined contribution segment is equivalent to the net assets related to that segment at any point in time.

This is Exhibit "G" referred to in the affidavit of Deborah Hamann-Trou sworn before me at Vancouver this 17th day of June, 2012.

A Commissioner for taking Affidavits for British Columbia

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CATALYST PAPER CORPORATION

RETIREMENT PLAN FOR SALARIED EMPLOYEES

Actuarial Valuation as at December 31, 2011

March 30, 2012

Registration Numbers:

British Columbia Financial Institutions Commission: P085400
Canada Revenue Agency: 0212076

This document is being filed with the Pension Department of the British Columbia Financial Institutions Commission as required by the terms of the solvency funding relief agreement granted by the Superintendent of Pensions. It contains financial information regarding the plan and the employer sponsoring the plan that has been supplied in confidence. If such information were made available to the general public, it could have an adverse effect on the employer's competitive position within the meaning of subsection 21(1) of the *Freedom of Information and Protection of Privacy Act* of British Columbia, and section 22(1) of the British Columbia *Pension Benefits Standards Act.*

TOWERS WATSON

Table of Contents

Introduction

Purpose

This report with respect to the Catalyst Paper Corporation Retirement Plan for Salaried Employees (the "plan") has been prepared for Catalyst Paper Corporation, (the "Company" and the plan administrator), and presents the results of the actuarial valuation of the plan as at December 31, 2011.

The principal purposes of the report are:

- to present information on the financial position of the plan on both going concern and solvency bases; and

- to review the hypothetical windup status of the plan.

This report outlines the changes in the plan's financial position since the previous valuation at December 31, 2010. This report is being prepared and filed with the Pension Department of the British Columbia Financial Institutions Commission as required by the terms of the solvency funding relief agreement granted by the Superintendent, as documented in her letter dated February 7, 2012. This report does not provide information in respect of the funding requirements under the *Pensions Benefits Standards Act (British Columbia)* and Regulation thereto or the *Income Tax Act (Canada)* and Regulations thereto. The contribution requirements to the plan are set out in the report on the actuarial valuation as at December 31, 2010 and the solvency funding relief agreement granted by the Superintendent, as documented in her letter dated February 7, 2012.

This report summarizes the results of the actuarial valuation and contains an actuarial opinion as an integral part of the report. Supporting detailed information on the significant terms of engagement, assets, actuarial basis, membership data and plan provisions is contained in the Appendices.

The information contained in this report was prepared for Catalyst Paper Corporation, for its internal use and for filing with the British Columbia Financial Institutions Commission, in connection with the actuarial valuation of the plan prepared by Towers Watson Canada Inc. ("Towers Watson"). This report is not intended, nor necessarily suitable, for other parties or for other purposes. Further distribution of all or part of this report to other parties (except where such distribution is required by applicable legislation) or other use of this report is expressly prohibited without Towers Watson's prior written consent. Towers Watson is available to provide additional information with respect to this report to the above-mentioned intended users upon request.

The numbers in this report are not rounded. The fact that numbers are not rounded does not imply a greater level of precision than if the numbers had been rounded.

Significant Events Since Previous Actuarial Valuation

Actuarial Basis

Since the previous actuarial valuation, the solvency and hypothetical windup actuarial assumptions have been updated to reflect market conditions at the valuation date. However, there have been no changes to the going concern actuarial basis.

Plan Provisions

This valuation reflects the plan provisions as at December 31, 2011 and does not make any provisions for the possibility that a change or action (retroactive or otherwise) could be imposed by order of a regulatory body or a court as we are not aware of any events that would cause such change or action at the time this valuation was completed.

There have been no changes to the plan provisions since the previous actuarial valuation that affect the valuation's results.

Legislative and Actuarial Standards Updates

The *Standards of Practice for Pension Commuted Values* published by the Canadian Institute of Actuaries effective April 1, 2009 provide for an update to the mortality assumption with effect from February 1, 2011. The revised standards have been reflected for purposes of the solvency and hypothetical windup valuations.

Subsequent Events

We completed this valuation on March 30, 2012.

To the best of our knowledge and on the basis of our discussions with Catalyst Paper Corporation, no events which would have a material impact on the results of the valuation occurred between the valuation date and the date this valuation was completed.

Section 1: Going Concern Financial Position

1.1 Statement of Financial Position

	December 31, 2011	December 31, 2010
Going Concern Value of Assets		
Defined benefit provision	$ 227,485,022	$ 242,109,210
Defined contribution provision	47,360,415	56,262,092
Total going concern value of assets	$ 274,845,437	$ 298,371,302
Actuarial Liability		
Defined Benefit Provision		
Active, disabled and suspended members	$ 24,256,430	$ 31,822,299
Retired members and beneficiaries	229,052,827	228,135,324
Terminated vested members	5,575,373	5,479,103
Total actuarial liability	$ 258,884,630	$ 265,436,726
Defined Contribution Provision	$ 47,360,415	$ 56,262,092
Total Actuarial Liability	$ 306,245,045	$ 321,698,818
Actuarial Surplus (Unfunded Actuarial Liability)	$ (31,399,608)	$ (23,327,516)

Comments:

- The financial position of the plan on a going concern basis is determined by comparing the going concern value of assets to the actuarial liability and is a reflection of the assets available for the benefits accrued in respect of credited service prior to the valuation date assuming the plan continues indefinitely.
- The increase in the actuarial liability as at December 31, 2011, which would result from a 1% decrease in the valuation discount rate assumption, is $24,196,525. For purposes of this calculation, no changes were made to any of the other actuarial assumptions or to the actuarial methods used for the going concern valuation.

1.2 Reconciliation of Financial Position

Actuarial surplus (unfunded actuarial liability) as at January 1, 2011		$ (23,327,516)
Net special payments		10,114,569
Expected interest on:		
• Actuarial surplus (unfunded actuarial liability)	$ (1,399,651)	
• Net special payments	299,017	(1,100,634)
Plan experience:		
• Investment gains (losses), net of all expenses	$ (16,326,326)	
• Retirement gains (losses)	373,197	
• Withdrawal gains (losses)	(92,734)	
• Mortality gains (losses)	(892,781)	
• Salary gains (losses)	167,417	
• Data correction	(247,414)	
• Other liability gains (losses)	(67,386)	(17,086,027)
Actuarial surplus (unfunded actuarial liability) as at December 31, 2011		$ (31,399,608)

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Section 2: Solvency and Hypothetical Windup Financial Position

2.1 Statement of Solvency Financial Position

	December 31, 2011	December 31, 2010
Solvency Value of Assets		
Defined Benefit Provision		
Market value of assets	$ 216,657,338	$ 228,559,253
Provision for plan windup expenses	(500,000)	(500,000)
Total solvency value of assets	$ 216,157,338	$ 228,059,253
Defined Contribution Provision		
Market value of assets	$ 47,360,415	$ 56,262,092
Total Solvency Value of Assets	$ 263,517,753	$ 284,321,345
Solvency Liability		
Defined Benefit Provision		
Active, disabled and suspended members	$ 32,261,140	$ 35,914,188
Retired members and beneficiaries	290,156,036	258,726,562
Terminated vested members	8,593,562	6,901,088
Total solvency liability	$ 331,010,738	$ 301,541,838
Defined Contribution Provision	$ 47,360,415	$ 56,262,092
Total Solvency Liability	$ 378,371,153	$ 357,803,930
Solvency Surplus (Unfunded Solvency Liability)	$ (114,853,400)	$ (73,482,585)
Solvency Ratio – Defined Benefit Provision	0.65	0.76

Comments:

- The financial position of the plan on a solvency basis is determined by comparing the solvency value of assets to the solvency liability (the actuarial present value of benefits accrued in respect of credited service prior to the valuation date, calculated as if the plan were wound up on that date).

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- The solvency actuarial valuation results presented in this report are determined under a scenario where, following a plan windup, the employer discontinues its operations.

- The increase in the solvency liability as at December 31, 2011, which would result from a 1% decrease in the valuation discount rate assumption, is $37,631,483. For purposes of this calculation, no changes were made to any of the other actuarial assumptions or to the actuarial methods used for the solvency valuation.

2.2 Hypothetical Windup Financial Position

The hypothetical windup actuarial valuation results presented in this report are determined under the same scenario used for the solvency valuation.

If the plan were to be wound up on the valuation date, the hypothetical windup liability would be equal to the solvency liability. Consequently, the hypothetical windup surplus (unfunded hypothetical windup liability) as at the valuation date is $(114,853,400).

2.3 Solvency Incremental Cost – Defined Benefit Provision

The solvency incremental cost for a given year represents the present value, at the valuation date, of the expected aggregate change in the solvency liability during the year, increased for expected benefit payments during the year. The 2012 solvency incremental cost is derived from the projection of the solvency liability, as follows:

	2012
Projected solvency liability as at beginning of year	$ 331,010,738
Solvency incremental cost for the year[1]	1,282,402
Interest on projected solvency liability, solvency incremental cost and expected benefit payments	10,785,747
Expected benefit payments during year	(22,468,555)
Projected solvency liability as at end of year	$ 320,610,332

Note:

[1] This amount is as at the beginning of the year.

Section 3: Actuarial Certification and Opinion

3.1 Actuarial Certification

Based on the results of these valuations, we hereby certify that, in our opinion, as at December 31, 2011:

- The actuarial surplus (unfunded actuarial liability), determined by comparing the actuarial liability, the measure of obligations of the plan on a going concern basis, to the going concern value of assets, is $(31,399,608).

- The solvency surplus (unfunded solvency liability), determined by comparing the solvency liability to the solvency value of assets, is $(114,853,400).

- The hypothetical windup surplus (unfunded hypothetical windup liability), determined by comparing the hypothetical windup liability to the solvency value of assets, is $(114,853,400).

- The solvency ratio, as defined in the Regulation to the *Pension Benefits Standards Act (British Columbia)*, is 0.65.

- In accordance with the terms of the solvency relief agreement granted by the Superintendent of Pensions of the British Columbia Financial Institutions Commission, as documented in her letter dated February 7, 2012, the next update on the financial position of the plan should be performed with an effective date not later than December 31, 2012.

- In accordance with the Regulation to the *Pension Benefits Standards Act (British Columbia)*, the next full actuarial valuation, including the basis for employer contributions, should be performed with an effective date not later than December 31, 2013. The basis for employer contributions presented in the report on the actuarial valuation of the plan as at December 31, 2010 and as presented in the solvency funding relief agreement granted by the Superintendent of Pensions is effective until the next full actuarial valuation is filed.

3.2 Actuarial Opinion

In our opinion:

- the membership data on which the actuarial valuations are based are sufficient and reliable for the purposes of the going concern, solvency and hypothetical windup valuations,

- the assumptions are appropriate for the purposes of the going concern, solvency and hypothetical windup valuations, and

- the methods employed in the valuations are appropriate for the purposes of the going concern, solvency and hypothetical windup valuations.

This report has been prepared, and our opinion has been given, in accordance with accepted actuarial practice in Canada. The valuations have been conducted in accordance with our understanding of the funding and solvency standards prescribed by the *Pension Benefits Standards Act (British Columbia)* and Regulation thereto, and in accordance with our understanding of the requirements of the *Income Tax Act (Canada)* and Regulations thereto. This actuarial opinion forms an integral part of the report.

The results presented in this report have been developed using a particular set of actuarial assumptions. Other results could have been developed by selecting different actuarial assumptions. The results presented in this report are reasonable actuarial results based on actuarial assumptions reflecting our expectation of future events.

Towers Watson Canada Inc.

Bernard Mercier
Fellow of the Canadian Institute of Actuaries

Jaime Omichinski
Fellow of the Canadian Institute of Actuaries

Vancouver, British Columbia
March 30, 2012

Appendix A: Significant Terms of Engagement

For purposes of preparing this valuation report, the plan administrator has directed that:

- The actuarial valuation is to be prepared as at December 31, 2011.
- For purposes of the going concern valuation, the terms of engagement require th euse of margins for adverse deviations mentioned in Appendix C.
- For purposes of determining the going concern discount rate, the target asset class distribution has been established in accordance with the Statement of Investment Policies and Procedures effective August 1, 2011.
- For purposes of determining the going concern financial position of the plan, the going concern value of assets is to be determined using the averaging technique described in the Going Concern Asset Valuation Method section in Appendix C.
- There is no partial plan windup with an effective date prior to the date of this valuation, involving members employed in Ontario, not yet completed where the partial windup portion of the plan is in a surplus position on the date of this valuation, this report is to be prepared on the basis that there will be no retroactive changes to previously filed partial windup reports, if any, and neither the applicable pension regulator nor the plan sponsor will order/declare any partial plan windup with an effective date prior to the valuation date.
- The hypothetical windup valuation results presented in this report are to be determined under a scenario where the employer discontinues to operate and all expenses are paid from the pension fund.

Appendix B: Assets

Statement of Market Value

	December 31, 2011	December 31, 2010
Defined Benefit Provision		
Invested assets:		
• Cash and short-term investments	$ 4,834,136	$ 50,877
• Fixed income	86,123,009	86,045,676
• Canadian equities	39,845,766	47,617,035
• Foreign equities	81,409,389	91,592,529
• Investment income receivable	2,397,948	2,654,128
• Total invested assets	$ 214,610,248	$ 227,960,245
Net outstanding amounts:		
• Contributions receivable	$ 2,551,687	$ 925,634
• Benefits payable	(325,805)	(290,002)
• Expenses and other payables	(178,792)	(36,624)
• Total net outstanding amounts	$ 2,047,090	$ 599,008
Defined Contribution Provision		
Invested assets	$ 47,360,415	$ 56,262,092
Total	$ 264,017,753	$ 284,821,345

Comments:

- The defined benefit assets are invested, along with those of other Catalyst Paper Corporation registered retirement plans, in the Catalyst Paper Corporation Master Trust. The invested asset allocation shown above reflects the plan's prorata share of each asset class of the Catalyst Paper Corporation Master Trust.

- The invested assets under the defined benefit provision are held by CIBC Mellon under account F441500.

- The invested assets under the defined contribution provision are held by Manulife Financial under policy number 10001106.

- The data relating to the invested assets and net outstanding amounts are based on the unaudited financial statements issued by CIBC Mellon. All such data has been relied upon by Towers Watson following tests of reasonableness with respect to contributions, benefit payments and investment income. However, Towers Watson has not independently audited or verified this data.

- The outstanding contributions receivable of $2,551,687 are comprised of $23,045 of employer defined benefit normal actuarial cost contributions, $730,049 of going concern amortization payments and $1,798,593 of solvency amortization payments.

Asset Class Distribution – Defined Benefit Provision

The following table shows the target asset allocation stipulated by the plan's investment policy in respect of various major asset classes and the actual asset allocation as at December 31, 2011.

	Target asset allocation [1]	**Asset allocation as at December 31, 2011** [2]
Fixed Income	40%	41%
Canadian Equity	20%	19%
Foreign Equity	40%	38%
Cash and cash equivalents	0%	2%
Total	100%	100%

Notes:

[1] This information was obtained from the Statement of Investment Policies and Procedures (SIPP) in effect for the plan as at August 1, 2011.

[2] This information was obtained from the unaudited financial statements issued by CIBC Mellon. All such data has been relied upon by Towers Watson and compared against the target asset allocation to assess reasonableness. However, Towers Watson has not independently audited or verified this data.

Reconciliation of Invested Assets (Market Value) – Defined Benefit Provision

Assets as at December 31, 2010		$ 227,960,245
Receipts:		
• Contributions:		
– Employer normal actuarial cost	$ (21,392)	
– Employer amortization payments	8,553,119	
– Members' required contributions	9,134	$ 8,540,861
• Investment return, net of all expenses		696,426
• Total receipts		$ 9,237,287
Disbursements:		
• Benefit payments:		
– Pension payments	$ 22,350,261	
– Lump sum settlements	237,023	$ 22,587,284
• Total disbursements		$ 22,587,284
Assets as at December 31, 2011		$ 214,610,248

Comments:

- This reconciliation is based on the unaudited financial statements issued by CIBC Mellon. All such data has been relied upon by Towers Watson following tests of reasonableness with respect to contributions, benefit payments and investment income. However, Towers Watson has not independently audited or verified this data.

- The rate of return earned on the market value of assets, net of all expenses, from January 1, 2011 to December 31, 2011 is approximately 0.32% per year.

Development of the Actuarial Value of Assets

Total Assets Held in the Catalyst Paper Corporation Master Trust

	Adjusted Market Value Beginning from:				
	December 31, 2006	December 31, 2007	December 31, 2008	December 31, 2009	December 31, 2010
Adjusted market value as at December 31, 2007	$ 269,269,675				
Net cash flow for 2008	(3,294,751)				
Assumed investment return (6.25%)	16,726,394				
Adjusted market value as at December 31, 2008	$ 282,701,318	$ 213,893,340			
Net cash flow for 2009	(11,142,911)	(11,142,911)			
Assumed investment return (6.25%)	17,320,616	13,020,118			
Adjusted market value as at December 31, 2009	$ 288,897,023	$ 215,770,547	$ 234,881,461		
Net cash flow for 2010	(20,018,027)	(20,018,027)	(20,018,027)		
Assumed investment return (6.25%)	17,429,376	12,860,096	14,054,528		
Adjusted market value as at December 31, 2010	$ 286,290,372	$ 208,612,616	$ 228,917,962	$ 240,010,988	
Net cash flow for 2011	(14,736,266)	(14,736,266)	(14,736,266)	(14,736,266)	
Assumed investment return (6.00%)	16,735,334	12,074,669	13,292,990	13,958,571	
Adjusted market value as at December 31, 2011	$ 288,289,440	$ 205,951,019	$ 227,474,686	$ 239,233,293	$ 225,985,136

Actuarial and Smoothed Solvency Value of Assets

Average of the five adjusted market values as at December 31, 2011	$ 237,386,715
Corridor maximum value (110% of market value of assets)	248,583,650
Corridor minimum value (90% of market value of assets)	203,386,622
Actuarial value of assets as at December 31, 2011	$ 237,386,715
Ratio of actuarial value of assets over market value of assets ($237,386,715 / $225,985,136)	1.05045

Comments:

- The asset valuation method for the actuarial value of assets is described in Appendix C.
- The starting value of each column is the actual market value of invested assets at the indicated date.
- Net cash flows were calculated as contributions less benefit payments on a cash basis during the year.

Development of the Actuarial Value of Assets as of December 31, 2011 – Defined Benefit Provision

Actuarial Value of Assets for the Salaried Plan

Market value of plan assets (cash basis)	$	214,610,248
Ratio of Master Trust actuarial value of assets over market value of assets		1.05045
Actuarial value of invested plan assets	$	225,437,932
Net outstanding amounts:		
• Contributions receivable	$	2,551,687
• Benefits payable		(325,805)
• Expenses payable		(178,792)
• Total	$	227,485,022

Comment:

- The rate of return on the actuarial value of assets for the plan, net of all expenses, for the period from December 31, 2010 to December 31, 2011 is approximately -1.0% per year.

Appendix C: Actuarial Basis – Going Concern

Methods

Defined Benefit Provision

Asset Valuation Method

The actuarial value of assets was calculated as the average of the market value of invested assets at the valuation date and the four previous adjusted market values. The adjusted market values at the current valuation date were developed from the fund's market value at the four preceding year-ends. To obtain these adjusted market values, the market values at December 31 of each of the four preceding years were accumulated to the valuation date with net contributions and assumed investment return. Net contributions were calculated as contributions less benefit payments and were assumed to occur uniformly throughout each year.

At the previous valuation, the assumed investment return was calculated assuming that each year the assets earned interest at the average 3-month Canada Treasury Bill rate during the year plus 2.5%. If necessary, the actuarial value of assets was then adjusted so that it falls within 5% of the market value of assets (5% corridor).

Commencing with this valuation, the assumed investment return was calculated assuming that each year the assets earned interest at the going concern discount rate assumption in effect during that year. The revised investment return assumption is considered to be a better estimate of future expected investment returns. If necessary, the actuarial value of assets was then adjusted so that it falls within 10% of the market value of assets (10% corridor).

The actuarial value of invested assets was first calculated in aggregate for all the pension plans which participate in the Catalyst Paper Corporation Master Trust. A ratio equal to the actuarial value of the assets over the market value of the assets for all of the pension plans which participate in the Catalyst Paper Corporation Master Trust was then calculated. The actuarial value of assets for the plan was calculated as the market value of the invested assets of the plan multiplied by the above ratio. The actuarial value of assets for the plan was then adjusted for any outstanding amounts.

The objective of the asset valuation method is to produce a smoother pattern of going concern surplus (deficit) and hence a smoother pattern of contributions consistent with the long-term nature of the going concern valuation.

Such smoothing is achieved by use of an averaging process which systematically recognizes investment returns different from expectations over a four-year period, with 20% recognized at the valuation date and the remainder at a rate of 20% per year. This method will be expected to average periods of outperformance with periods of underperformance.

The going concern discount rate has been selected to equal the expected return on the assets over long periods of time, with a margin for adverse deviations. As such, it is anticipated that, on average, the asset valuation method will tend to produce a result that is somewhat less than the market value of assets.

Actuarial Cost Method

The actuarial liability and the normal actuarial cost were calculated using the projected unit credit cost method.

Prospective benefits were calculated for each active, disabled and suspended member according to the plan provisions and actuarial assumptions. The actuarial liability was calculated as the actuarial present value of the member's prospective benefits multiplied by the ratio of the member's credited service prior to the valuation date to the member's total potential credited service (the service prorate method).

The actuarial liability for retired members and beneficiaries and terminated vested members was calculated as the actuarial present value of their respective benefits.

Defined Contribution Provision

For the purposes of the going concern valuation, the determination of the actuarial liability for the defined contribution provision does not involve the use of an actuarial cost method, nor does it involve actuarial assumptions. By definition, the actuarial liability under the defined contribution provision corresponds with the market value of the members' defined contribution accounts at the valuation date.

Actuarial Assumptions

	December 31, 2011	December 31, 2010
Economic Assumptions (per annum)		
Liability discount rate	6.00%	Same
Rate of salary increase	3.00% (nil for disabled members)	Same
Escalation of YMPE under Canada Pension Plan [1]	2.50%	Same
Escalation of *Income Tax Act (Canada)* maximum pension limitation [2]	2.50%	Same
Rate of inflation	2.00%	Same
Interest on members' contributions	3.25%	Same
Demographic Assumptions		
Mortality	1994 Uninsured Pensioner Mortality Table, projected generationally using Scale AA (refer to Table 1)	Same
Withdrawal	Age-related rates (refer to Table 2)	Same
Disability incidence/recovery	Nil	Same
Retirement/pension commencement		
• Active, disabled and suspended members	Age-related rates (refer to Table 3)	Same
• Terminated vested members	Earliest unreduced retirement date	Same
Other		
Percentage of members with eligible spouses at pension commencement and electing joint and survivor pension form	90%	Same
Years male spouse older than female spouse	3	Same
Provision for non-investment expenses	None; return on plan assets is net of all expenses	Same

Notes:

[1] The YMPE of $50,100 for 2012 is the starting value for the YMPE projection as at the current valuation and is indexed starting in 2013.

[2] The *Income Tax Act (Canada)* maximum pension limit of $2,646.67 per year of service in 2012 is the starting value for maximum pension limit projection as at the current valuation and is indexed starting in 2013.

Table 1 — Sample Mortality Rates

1994 Uninsured Pensioner Mortality Table [1]			Scale AA Mortality Improvement Table [2]		
Age	Male	Female	Age	Male	Female
20	0.000545	0.000305	20	0.019	0.016
25	0.000711	0.000313	25	0.010	0.014
30	0.000862	0.000377	30	0.005	0.010
35	0.000915	0.000514	35	0.005	0.011
40	0.001153	0.000763	40	0.008	0.015
45	0.001697	0.001046	45	0.013	0.016
50	0.002773	0.001536	50	0.018	0.017
55	0.004758	0.002466	55	0.019	0.008
60	0.008576	0.004773	60	0.016	0.005
65	0.015629	0.009286	65	0.014	0.005
70	0.025516	0.014763	70	0.015	0.005
75	0.040012	0.024393	75	0.014	0.008
80	0.066696	0.042361	80	0.010	0.007
85	0.104559	0.072836	85	0.007	0.006
90	0.164442	0.125016	90	0.004	0.003
95	0.251189	0.200229	95	0.002	0.002
100	0.341116	0.297233	100	0.001	0.001
105	0.440585	0.415180	105	0.000	0.000

Notes:

[1] The mortality rates for years after 1994 are computed using the mortality rates for the year 1994 (q_x^{1994} rates) and mortality improvement rates (AA_x rates).

[2] Using the q_x^{1994} rates and the AA_x rates defined above, the resulting mortality rate for age x in calendar year y is: $q_x^y = q_x^{1994} \cdot (1 - AA_x)^{y-1994}$.

Table 2 — Withdrawal Rates

Service Years	All members
1	0.180
2	0.160
3	0.140
4	0.120
5	0.100
6	0.080
7	0.060
8	0.050
9	0.040
10	0.035
11	0.030
12	0.025
13	0.020
14	0.015
15	0.010
More than 15	0.000

Table 3 — Retirement Rates

Age	All members
55 to 59	0.150
60	0.350
61	0.350
62	0.350
63	0.350
64	0.350
65	1.000

Rationale for Actuarial Assumptions

The rationale for the material actuarial assumptions used in the going concern valuation is summarized below.

The going concern assumptions do not include margins for adverse deviations, except as noted below.

Liability discount rate

The assumption is an estimate of the expected long-term return on plan assets, net of a provision for non-investment expenses expected to be paid from the plan of 0.3% of invested assets, less a 0.2% margin for adverse deviations. The expected long-term return is based on returns for each major asset class in which the plan is expected to be invested (net of investment expenses), the plan's investment policy with consideration of the effects of diversification and periodic rebalancing to maintain the plan's investment policy. We have assumed that additional returns associated with employing an active management strategy would equal the additional expenses associated with employing such strategy. Consequently, we have disregarded any potential additional returns.

The expected long-term return for asset classes subject to risk includes an estimated risk premium. Based on historical experience, assets invested in instruments subject to risk are expected to yield higher returns in the long-run than assets invested in risk-free investments, but these returns may fluctuate significantly from year to year.

Rate of salary increase

The assumption reflects an assumed rate of inflation of 2.00% per year, plus an allowance of 0.5% per year for the effect of real economic growth and productivity gains in the economy. In addition, an allowance of 0.5% per year has been made to reflect the average expected increase as a result of individual employee merit and promotion. The merit and promotion assumption is based on discussions with Catalyst Paper Corporation management concerning their future expectations.

Escalation of YMPE under Canada Pension Plan

The YMPE is indexed annually based on increases in the Average Industrial Wage index for Canada. The assumption reflects an assumed rate of inflation of 2.00% per year, plus an allowance of 0.5% per year for the effect of real economic growth and productivity gains in the economy.

Escalation of Income Tax Act (Canada) maximum pension limitation

The maximum pension limitation under the *Income Tax Act (Canada)* is scheduled to be indexed annually based on assumed increases in the Industrial Aggregate Wage index. The assumption reflects an assumed rate of inflation of 2.00% per year, plus an allowance of 0.5% per year for the effect of real economic growth and productivity gains in the economy.

Rate of Inflation

The assumption reflects an estimate of the future rate of inflation considering economic and financial market conditions at the valuation date.

Mortality

The 1994 Uninsured Pensioner Mortality Table reflects the mortality experience projected to 1994 for a large sample of North American pension plans. Applying Projection Scale AA generationally provides allowance for improvements in mortality after 1994 and is commonly considered reasonable for projecting mortality experience into the future. This table is commonly used for valuations where the mortality experience of the membership of a plan is insufficient to assess plan-specific experience and where there is no reason to expect the mortality experience of the plan to differ significantly from that of other pension plans. No allowance has been made for mortality prior to retirement with respect to terminated vested members in order to approximate the value of pre-retirement death benefits.

Withdrawal

Withdrawal rates are typically developed taking into account the past experience of the plan. However, based on discussions with Catalyst Paper Corporation management, recent withdrawal experience is not considered appropriate for assessing the future incidence of withdrawal. Accordingly, the rates of withdrawal are based on discussions with Catalyst Paper Corporation management concerning their future expectations and our experience with other similar plans.

Disability incidence/recovery

There are no disability benefits under the plan other than the accrual of retirement income (earnings remain constant) during disability. Consequently, the assumption of no incidence of disability or recovery therefrom makes an appropriate allowance, in combination with the other assumptions, for such continued accruals.

Retirement/pension commencement

Active, disabled and suspended members

Retirement rates are typically developed taking into account the past experience of the plan. However, based on discussions with Catalyst Paper Corporation management, recent retirement experience is not considered appropriate for predicting the future incidence of retirement. Accordingly, rates of retirement were developed based on discussions with Catalyst Paper Corporation management concerning their future expectations, the plan provisions and our experience with other similar plans.

Terminated vested members

All terminated members are assumed to commence their pension at the normal retirement age of 65, as the plan's termination benefit provides for an actuarially reduced benefit upon pension commencement prior to normal retirement age.

Percentage of members with eligible spouses at pension commencement and electing joint and survivor pension form

When provided, the actual data on the spouse and form of payment were used for retired members. For other members, the assumed percentage of members with a spouse is based on the percentages for the general population. All members with eligible spouses were assumed to elect a joint and survivor pension form.

Years male spouse older than female spouse

When provided, the actual data on the spouse were used for retired members. For other members, the assumption is based on surveys of the age difference in the general population and an assessment of future expectations for members of the plan.

Provision for non-investment expenses

The liability discount rate is net of all expenses (excluding any fees associated with employing an active investment management strategy). The assumed level of expenses reflected in the liability discount rate is based on recent experience of the Catalyst Paper Corporation Master Trust and an assessment of future expectations.

Appendix D: Actuarial Basis – Solvency and Hypothetical Windup

Methods

Defined Benefit Provision

Asset Valuation Method

The market value of assets, adjusted for net outstanding amounts, has been used for the solvency and hypothetical windup valuations. The resulting value has been reduced by a provision for plan windup expenses.

Method for Calculating Liabilities

The solvency and hypothetical windup liabilities for active, disabled and suspended members were calculated as the actuarial present value of all benefits accrued up to the valuation date (treating all members as if vested).

The solvency and hypothetical windup liabilities for retired members, beneficiaries and terminated vested members were calculated as the actuarial present value of their respective benefits.

Other Considerations

The solvency and hypothetical windup actuarial valuations have been prepared on a hypothetical basis. In the event of an actual plan windup, the plan assets may have to be allocated between various classes of plan members or beneficiaries as required by applicable pension legislation. Such potential allocation has not been performed as part of these solvency and hypothetical windup valuations.

Defined Contribution Provision

For the purposes of the solvency and hypothetical windup valuations, the determination of the liability for the defined contribution provision does not involve the use of a liability calculation method, nor does it involve actuarial assumptions. By definition, the solvency and hypothetical windup liability under the defined contribution provision corresponds with the market value of the members' defined contribution accounts at the valuation date.

Solvency Incremental Cost Actuarial Method – Defined Benefit Provision

The solvency incremental cost for a given year represents the present value, at the valuation date, of the expected aggregate change in the solvency liability during the year, increased for expected benefit payments during the year.

The solvency incremental cost reflects expected decrements and related changes in membership status, accrual of service, any expected changes in benefits, entitlements, pension formula or increases in the maximum pension limits, and projected pensionable earnings during the year.

The solvency incremental cost has been calculated for each year until the next valuation date as the projected solvency liability at the end of the year, minus the solvency liability at the beginning of the year, increased for expected benefit payments during the year. Each of these amounts is discounted to the valuation date using the solvency liability discount rate.

The method used to calculate the projected solvency liabilities at each projection date is the same as used in the solvency valuation.

Actuarial Assumptions

	December 31, 2011	December 31, 2010
Economic Assumptions (per annum)		
Liability discount rate		
• Annuity purchase	3.30%	4.50%
• Commuted value	2.60 for 10 years, 4.10% thereafter	3.30% for 10 years, 5.00% thereafter
Escalation of *Income Tax Act (Canada)* maximum pension limitation	N/A	Same
Demographic Assumptions		
Mortality	1994 Uninsured Pensioner Mortality Table, projected generationally using Scale AA	1994 Uninsured Pensioner Mortality Table, projected to 2020 using Scale AA
Withdrawal	N/A	Same
Disability incidence/recovery	N/A	Same
Retirement/pension commencement	Described in detail on page D-6	Same
Other		
Percentage of members with eligible spouses at pension commencement and electing joint and survivor pension form	90%	Same
Years male spouse older than female spouse	3	Same
Percentage of members receiving settlement by commuted value [1]		
• Retired members and beneficiaries	0%	Same
• Terminated vested members	0%	Same
• Active members under 55 years old	100%	Same
• Active members aged 55 years and over	0%	Same
Provision for expenses		
• Solvency	$500,000	Same
• Hypothetical windup	$500,000	Same

Note:

1 The balance is assumed to receive settlement by annuity purchase.

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Rationale for Actuarial Assumptions

The rationale for the material actuarial assumptions used in the solvency and hypothetical windup valuations is summarized below.

The actuarial assumptions used in the solvency and hypothetical windup valuations do not include margins for adverse deviations.

Liability discount rate

In the event of a plan windup, it is expected that a portion of the liabilities will be settled by a group annuity purchase and the balance of the liabilities will be settled by commuted value transfers.

For the calculation of the portion of the solvency and hypothetical windup liabilities relating to the benefits that are expected to be settled by a group annuity purchase, the liability discount rate corresponds to an approximation of the annuity purchase rates as at the valuation date following application of the relevant guidance for assumptions for solvency and hypothetical windup valuations issued by the Canadian Institute of Actuaries' Committee on Financial Reporting.

For the calculation of the portion of the solvency and hypothetical windup liabilities relating to the benefits that are expected to be settled by commuted value transfers, the liability discount rates have been determined in accordance with the *Standards of Practice for Pension Commuted Values* published by the Canadian Institute of Actuaries effective April 1, 2009 and revised February 1, 2011. For this valuation, the December 2011 rates have been used.

Escalation of Income Tax Act (Canada) maximum pension limitation

The *Income Tax Act (Canada)* maximum pension limitation specified in the Act as at the valuation date is applied without consideration for future scheduled increases, as pension entitlements are determined as at the valuation date.

Mortality

For benefits that are expected to be settled by commuted value transfers, the assumption has been determined in accordance with the *Standards of Practice for Pension Commuted Values* published by the Canadian Institute of Actuaries effective April 1, 2009 and revised effective February 1, 2011. For the benefits that are expected to be settled by a group annuity purchase, the assumption has been set following application of the relevant guidance on assumptions for solvency and hypothetical windup valuations issued by the Canadian Institute of Actuaries' Committee on Pension Plan Financial Reporting. No pre-retirement mortality has been assumed in order to approximate the value of pre-retirement death benefits.

Retirement/pension commencement

- Active, disabled and suspended members eligible to retire: immediate pension commencement.
- Former BCFP members with 20 years of service: pension commences at age 60.
- Otherwise: pension commences at age 65.

For benefits that are expected to be settled by commuted value transfers, this assumption is in accordance with the Canadian Institute of Actuaries' *Standards of Practice for Pension Commuted Values*. For the benefits that are expected to be settled by a group annuity purchase, this is consistent with the expected assumption that will be used by insurers to price the group annuity.

Percentage of members with eligible spouses at pension commencement and electing joint and survivor pension form

See rationale for going concern assumptions in Appendix C.

Years male spouse older than female spouse

See rationale for going concern assumptions in Appendix C.

Percentage of members receiving settlement by commuted value

This assumption has been determined by considering the benefit provisions of the plan, legislative requirements to offer specific settlement options to various classes of members, and, in particular, the options to be provided to members upon plan windup.

The assumption also reflects the expectation that members further from retirement are more likely to elect to settle their pension benefit by a commuted value transfer, while members closer to retirement are more likely to elect to settle their pension benefit through a group annuity purchase where this option is available. In addition, the assumption reflects past plan experience for terminating and retiring members.

Provision for expenses

Allowance was made for normal administrative, actuarial, legal and other costs which would be incurred if the plan were to be wound up (excluding costs relating to the resolution of surplus or deficit issues). The valuation is premised on a scenario in which the employer discontinues to operate after the windup date all costs incurred as a result of the plan windup were assumed to be paid from the pension fund.

Solvency Incremental Cost Actuarial Assumptions – Defined Benefit Provision

Demographic and Benefit Projection Actuarial Assumptions

The projected population and benefits valued in the solvency liability projection are based on the demographic and benefit projection assumptions used for the going concern valuation described in Appendix C.

Solvency Liability Projection Actuarial Assumptions

The assumptions for the solvency liability projections for purposes of calculating the solvency incremental cost are the same assumptions as those used in the solvency valuation described previously.

Appendix E: Membership Data

Summary of Membership Data

Active, Disabled and Suspended Members

	December 31, 2011	December 31, 2010
Defined Benefit Provision		
Active and disabled members accruing future service: [1]		
• Number	0	10
• Average age	N/A	57.6
• Average credited service	N/A	32.9
• Annual salary (including incentive compensation)	N/A	$ 1,051,679
• Average salary	N/A	$ 105,168
• Accumulated contributions with interest	N/A	$ 252,409
Active and disabled members not accruing future service: [2]		
• Number	61	69
• Average age	55.2	54.2
• Average credited service	25.4	25.8
• Annual salary (including incentive compensation)	$ 6,416,192	7,103,870
• Average salary	$ 105,183	102,955
• Accumulated contributions with interest	$ 1,432,846	1,520,850
Total:		
• Number	61	79
• Average age	55.2	54.7
• Average credited service	25.4	26.7
• Annual salary (including incentive compensation)	$ 6,416,192	$ 8,155,549
• Average salary	$ 105,183	$ 103,235
• Accumulated contributions with interest	$ 1,432,846	$ 1,773,258
Defined Contribution Provision		
• Number [3,4]	453	572
• Annualized salary [4]	$ 35,718,093	$ 39,264,000
• Average salary [4]	$ 96,797	$ 95,999
• Total account value	$ 47,360,415	$ 56,262,092
• Average account value	$ 104,548	$ 98,360

Notes:

[1] The only members accruing future service under the defined benefit provision of the plan as at December 31, 2010 are active and disabled members who were participating in the defined benefit provision and who were on salary continuance or working notice as at January 1, 2010.

[2] Active and disabled members with defined benefit accruals for service prior to January 1, 2010. Effective January 1, 2010, these members are accruing future service in the defined contribution provision of the plan.

[3] Includes the 61 suspended defined benefit members.

[4] Includes 84 terminated vested members. Annualized and average salary amounts exclude these 84 members.

Comment:

The following distribution relates to Active, disabled and suspended members. The following meanings have been assigned to age, credited service and pensionable earnings:

- Age — Age as at December 31, 2011
- Credited Service — Credited service as at December 31, 2011
- Salary — Estimated salary as at January 1, 2012

Active, Disabled and Suspended Members

		Credited Service								
Age		*0 - 4*	*5 - 9*	*10 - 14*	*15 - 19*	*20 - 24*	*25 - 29*	*30 - 34*	*35 +*	*Total*
< 20	Number									
	Total Salary									
	Average Salary									
20 - 24	Number									
	Total Salary									
	Average Salary									
25 - 29	Number									
	Total Salary									
	Average Salary									
30 - 34	Number									
	Total Salary									
	Average Salary									
35 - 39	Number									
	Total Salary									
	Average Salary									
40 - 44	Number					1				1
	Total Salary					*				*
	Average Salary					*				*
45 - 49	Number		2		4	6	1			13
	Total Salary		*		377,262	565,755	*			1,204,282
	Average Salary		*		94,316	94,293	*			92,637
50 - 54	Number				1	4	1	10		16
	Total Salary				*	388,970	*	1,044,702		*
	Average Salary				*	97,242	*	104,470		*
55 - 59	Number		1	3	2	2	3	5	3	19
	Total Salary		*	352,889	*	*	295,139	500,763	377,524	2,033,397
	Average Salary		*	117,630	*	*	98,380	100,153	125,841	107,021
60 - 64	Number			1	1	3	2	2	2	11
	Total Salary			*	*	478,727	*	*	*	1,372,568
	Average Salary			*	*	159,576	*	*	*	124,779
65 +	Number								1	1
	Total Salary								*	*
	Average Salary								*	*
Total	Number		3	4	8	16	7	17	6	61
	Total Salary		*	*	763,263	1,671,135	695,713	1,714,986	733,347	6,416,192
	Average Salary		*	*	95,408	104,446	99,388	100,882	122,225	105,183

* Excluded for confidentiality purposes.

Average Age = 55.2 Average Credited Service = 25.4

Retired Members and Beneficiaries

	December 31, 2011	December 31, 2010
• Number	1,187	1,195
• Average age	74.0	73.6
• Total annual lifetime pension	$ 22,324,014	$ 22,161,275
• Average annual lifetime pension	$ 18,807	$ 18,545

Terminated Vested Members

	December 31, 2011	December 31, 2010
• Number	199	203
• Average age	59.8	58.9
• Total lifetime annual pension	$ 705,517	$ 724,304
• Average lifetime annual pension	$ 3,545	$ 3,568

Review of Membership Data

The active, disabled and suspended defined benefit membership data were supplied by Catalyst Paper Corporation as at December 31, 2011.

Inactive defined benefit membership data were supplied by Towers Watson as at December 31, 2011, in its capacity as third-party plan administrator.

Defined contribution membership data were supplied by Manulife Financial as at December 31, 2011.

The membership data has been relied upon by Towers Watson following test for reasonableness and found to be sufficient and reliable for the purposes of the valuation. Elements of the data review included the following:

- ensuring that the data were intelligible (i.e., that an appropriate number of records was obtained, that the appropriate data fields were provided and that the data fields contained valid information);
- preparation and review of membership reconciliations to ascertain that the complete membership of the pension plan was accounted for;
- review of consistency of individual data items and statistical summaries between the current valuation and the previous valuation;
- review of reasonableness of individual data items, statistical summaries and changes in such information since the previous valuation date; and
- comparison of the membership data and the plan's financial statements for consistency.

Membership Reconciliation – Defined Benefit Provision

	Active and disabled members accruing future service	Active and disabled members not accruing future service	Retired members and beneficiaries	Terminated vested members	Total
As at December 31, 2010	10	69	1,195	203	1,477
• Retirements	(10)	(7)	21	(4)	0
• Deaths	0	0	0	0	0
• Termination with lump sum settlement	0	(1)	0	0	(1)
• Termination with deferred pension entitlement	0	0	0	0	0
• New beneficiaries	0	0	9	0	9
• Deceased (with beneficiary)	0	0	(8)	0	(8)
• Deceased (without beneficiary)	0	0	(30)	0	(30)
• Payments ceased due to guarantee end	0	0	0	0	0
• New Limited Members	0	0	0	0	0
• Net change	(10)	(8)	(8)	(4)	(30)
As at December 31, 2011	0	61	1,187	199	1,447

Appendix F: Summary of Plan Provisions

The following is an outline of the principal features of the plan which are of financial significance to valuing the plan benefits. This summary is based on the most recently restated plan document as of January 1, 2010 as provided by Catalyst Paper Corporation, and does not make any provisions for the possibility that a change or action (retroactive or otherwise) could be imposed by order of a regulatory body or a court. It is not a complete description of the plan terms and should not be relied upon for administration or interpretation of benefits. For a detailed description of the benefits, please refer to the plan document.

Persons employed by Catalyst Paper Corporation in a permanent full-time salaried position or a permanent part-time salaried position are eligible for membership in the plan. Effective January 1, 2010, the plan was amended such that active and disabled defined benefit members ceased accruals in the defined benefit provision of the plan and commenced accruing future benefits under the defined contribution of the plan. The defined benefits accrued prior to January 1, 2010 for these members continue to be eligible for future salary growth and early retirement subsidies. Active and disabled defined benefit members who were on salary continuance or on working notice as at January 1, 2010 continue to accrued benefits under the defined benefit provision of the plan until the end of their salary continuance or working notice period.

All new entrants are automatically enrolled in the defined contribution provision.

Defined Benefit Provision – NorskeCanada Plan Provisions

Definitions

Accrued Pension

For defined benefit service before January 1, 1989:

Former BCFP employees:

For each year of credited service from May 1, 1952 to December 31, 1965, 1.5% of final average earnings.

For each year of credited service after January 1, 1966, 1.0% of final average earnings up to final average YMPE, plus 2.0% of final average earnings in excess of final average YMPE.

In addition, while not a member of the BCFP Plan, 1.0% of final average earnings for each year of continuous service during the mandatory waiting period under the BCFP Plan, plus 0.5% of final average earnings for each year of continuous service other than the mandatory waiting period.

Former CFIL employees:

For each year of credited service, 1.00% of final average earnings up to final average YMPE, plus 1.75% of final average earnings in excess of final average YMPE.

For defined benefit service after January 1, 1989 but before January 1, 2002:

For each year of credited service, 1.3% of final average earnings up to final average YMPE, plus 2.0% of final average earnings in excess of final average YMPE.

For defined benefit service while in a Negotiated Plan:

For each year of credited service under the Negotiated Plan, including the period of continuous service from July 14, 1997 to April 20, 1998 for which credited service was not provided under the Negotiated Plan, 1.0% of final average earnings, less any pension payable under the Negotiated Plan.

For defined benefit service after January 1, 2002 (effective January 1, 2010, all future defined benefit service accruals have ceased except for certain defined benefit members on salary continuance or on working notice):

Core Option

For each year of credited service, an annual pension of 1.3% of final average earnings up to final average YMPE, plus 2.0% of final average earnings in excess of final average YMPE.

Contributory Option

For each year of credited service, an annual pension of 1.3% of final average earnings up to final average YMPE, plus 2.0% of final average earnings in excess of final average YMPE. However, in respect of credited service under the Contributory Option, the averaging period of service to determine the Final Average Earnings and Final Average YMPE is thirty-six consecutive calendar months, in lieu of sixty consecutive calendar months.

Credited Service

For former BCFP employees, the total period of membership in the plan. For all other employees, the total period of service with a Participating Company, since the employee's first date of employment.

Final Average Earnings

Average of the pensionable earnings for the sixty consecutive calendar months during the last one hundred twenty calendar months for which such compensation is highest, unless otherwise stated.

Final Average YMPE

Average of the YMPE over the same period as is used in the determination of the Final Average Earnings.

Negotiated Plan

Any pension plan that provides pension benefits under the terms of a collective agreement negotiated with a Participating Company.

Pensionable Earnings

Regular compensation including 100% of short term incentive compensation.

YMPE

The Year's Maximum Pensionable Earnings, as defined under the Canada Pension Plan, for each calendar year.

Eligibility for Membership

Membership is closed in the defined benefit provision of the plan. All new employees will enrol in the defined contribution provision of the plan.

Member Contributions

No member contributions are required nor allowed for the core option of the plan.

For the contributory option of the plan, the member contributes the following percentage of base salary only:

Age	Contributory Option
Under 30	1.0%
30 – 34	1.5%
35 – 39	2.2%
40 – 44	3.0%
45 – 49	3.7%
50 – 54	4.4%
55 or over	4.6%

Former CFIL members' contributions were refunded as of August 1, 1974. Former BCFP members' contributions prior to July 1, 1979 were deposited in a fully insured group annuity contract issued by the Standard Life Assurance Company and the benefits purchased comprise part of each member's total plan benefit.

Normal Retirement

Eligibility

First day of the month coincident with or next following attainment of age 65.

Annual Pension

Accrued pension.

Maximum Pension

Maximum permitted under Income Tax Act regulations for registration of pension plans.

Minimum Pension

$40.00 per month for each year of credited service.

Early Retirement

Eligibility

First day of the month coincident with or next following attainment of age 55.

Annual Pension

Benefit accrued to early retirement date reduced by 0.25% for each month by which retirement date precedes age 60. No reduction for retirement at or after age 60.

Deferred Retirement

Eligibility

Up to the first day of December of the calendar year during which the member attains age 69 if in continued employment with the Company.

Annual Pension

Normal retirement benefit accrued to actual retirement date.

Forms of Payment

Normal Form

For service under the Contributory Option:

If a member has a spouse, a pension payable for the member's lifetime with 60% payable to the member's spouse, if surviving, in the case of the member's death. If the member does not have a spouse, 10-year guarantee and life thereafter.

For all other service:

If a member has a spouse, an actuarially reduced pension payable for the member's lifetime with 60% payable to spouse, if surviving, in case of the member's death. If the member does not have a spouse, 5-year guarantee and life thereafter.

Disability

Member receiving Company long term disability benefits continues to accrue credited service. Earnings rate and the YMPE at the date of disability are assumed to continue unchanged during the period of disability.

A member who, prior to commencement of disability, was accruing benefits under the contributory option coverage will cease making contributions during the period of disability and will accrue benefits under the core option.

Termination Benefit

Before two years of service

Refund of member's contributions with interest.

After two years of service

Normal retirement benefit accrued to termination date, payable at age 65, or, for a former BCFP Plan member who has completed 20 or more years of service at date of termination, at age 60. Portability of the lump sum commuted value is available, as is early retirement on an actuarially reduced basis.

Pre–Retirement Death Benefit

Before 2 years of service

Refund of member's contributions with interest payable to spouse or beneficiary.

After 2 years of service and before age 55

Lump sum payment equal to the commuted value of member's accrued pension payable to spouse or beneficiary.

After 2 years of service and after age 55

Survivor pension payable to spouse until death equal to 60% of the member's early retirement benefit, as if the member had retired early and selected the 60% contingent annuitant option. Minimum survivor pension is that which is actuarially equivalent to the commuted value of member's accrued pension.

50% Cost Rule

For a member who has completed 2 or more years of credited service and who retires, dies or terminates employment, the plan will pay for at least 50% of the value of the member's benefit entitlement attributable to service under the Contributory Option.

Post-Retirement Benefit Adjustments

The portion of the member's accrued pension attributable to service under the Contributory Option shall be increased each January 1, following the member's retirement, by an amount equal to 2%.

Defined Benefit Provision – Pacifica Plan Provisions

Definitions

Accrued Pension

For service before July 1, 1996:

For each year of credited service, 2.0% of the average Plan Earnings during the 60 consecutive full months in which the member's Plan Earnings were highest.

For a member employed on or before August 1, 1979, for each year of continuous service prior to enrolment in the Former Plan, 1.0% of the average Plan Earnings during the 60 consecutive full months in which the member's earnings were highest.

For service on and after July 1, 1996 (effective January 1, 2010, all future defined benefit service accruals have ceased except for certain defined benefit members on salary continuance or on working notice):

For each year of credited service:

- the benefit formula rate applicable to the option elected for that year, multiplied by
- the Pensionable Earnings at retirement, averaged over the period applicable to the option elected for that year.

The benefit formula rate and averaging period for pensionable earnings for each option are as follows:

	Core	Option 1	Option 2	Option 3
Benefit formula rate	1.6%	1.6%	2.0%	2.0%
Averaging period	5 years	3 years	5 years	3 years

Pensionable Earnings

100% of base salary plus 50% of bonus.

Plan Earnings

65% of the member's pensionable earnings up to the YMPE plus 100% of pensionable earnings in excess of the YMPE.

YMPE

The Year's Maximum Pensionable Earnings, as defined under the Canada Pension Plan, for each calendar year.

Eligibility for Membership

Membership is closed. All new employees will enrol in the defined contribution provision of the plan.

Member Contributions

No member contributions are required nor allowed for the core option of the plan.

For the three options of the plan, the member contributes the following percentage of base salary only:

Age	Option 1	Option 2	Option 3
Under 30	1.0%	0.5%	2.0%
30 – 34	1.5%	1.0%	3.0%
35 – 39	2.2%	1.2%	4.0%
40 – 44	3.0%	1.6%	5.3%
45 – 49	3.7%	2.0%	6.3%
50 – 54	4.4%	2.2%	7.3%
55 or over	4.6%	2.4%	7.8%

Normal Retirement

Eligibility

First day of the month coincident with or next following attainment of age 65.

Annual Pension

Accrued pension.

Maximum Pension

Maximum permitted under Income Tax Act regulations for registration of pension plans.

Minimum Pension

For service before July 1, 1996:

$40.00 per month for each year of continuous service, less any pension payable to the member from any other company-sponsored plan.

For service on and after July 1, 1996:

The pension provided under the benefit formula under the core option and option 1 will not be less than 2.0% of average Plan Earnings, where the average Plan Earnings is based on 5 years and 3 years respectively.

Early Retirement

Eligibility

First day of the month coincident with or next following attainment of age 55.

Annual Pension

Benefit accrued to early retirement date reduced by 0.25% for each month by which retirement date precedes age 60. No reduction for retirement at or after age 60.

Deferred Retirement

Eligibility

Up to the first day of December of the calendar year during which the member attains age 69 if in continued employment with the Company.

Annual Pension

Normal retirement benefit accrued to actual retirement date.

Forms of Payment

Normal Form

For service prior to July 1, 1996:

If a member has a spouse, actuarially reduced pension payable for the member's lifetime with 60% payable to spouse, if surviving, in case of member's death. If the member does not have a spouse, 5-year guarantee and life thereafter.

For service on or after July 1, 1996:

The normal form of pension depends on which option the member has chosen for each year as follows:

	Core	Option 1	Option 2	Option 3
Without a spouse	5-year guarantee	10-year guarantee	5-year guarantee	10-year guarantee
With a spouse	5-year guarantee	Joint & 60% survivor	5-year guarantee	Joint & 60% survivor

Disability

Member receiving Company long term disability benefits continues to accrue credited service. Earnings rate and the YMPE at the date of disability are assumed to continue unchanged during the period of disability.

A member who, prior to commencement of disability, was accruing benefits under one of the enhanced optional coverages will cease making contributions during the period of disability and will accrue benefits under the core option.

Termination Benefit

Before two years of service

Refund of member's contributions with interest.

After two years of service

Normal retirement benefit accrued to termination date, payable at age 65. Portability of the lump sum commuted value is available, as is early retirement on an actuarially reduced basis.

Pre-Retirement Death Benefit

Before 2 years of service

Refund of member's contributions with interest payable to spouse or beneficiary.

After 2 years of service and before age 55

Lump sum payment equal to 60% of the commuted value of member's accrued pension payable to spouse or beneficiary.

After 2 years of service and after age 55

If the member does not have a spouse, lump sum payment equal to 60% of the commuted value of member's accrued pension payable to beneficiary.

If the member has a spouse, a pension payable to the member's spouse equal to the greater of:

- an immediate pension payable until death equal to 60% of the member's early retirement benefit, as if the member had retired on the first day of the month in which the member died and selected the 60% contingent annuitant option; and
- the pension which can be provided by 60% of the commuted value of member's accrued pension that would have been payable had the member retired immediately prior to his or her death.

50% Cost Rule

For a member who has completed 2 or more years of credited service and who retires, dies or terminates employment, the plan will pay for at least 50% of the value of the member's benefit entitlement attributable to service under the enhanced options.

Post-Retirement Benefit Adjustments

The portion of the member's accrued pension attributable to service under Option 1 or 3 shall be increased each January 1, following the member's retirement, by an amount equal to 2%.

Defined Contribution Provision

Definitions

Account

The individual account established for each DC Member, comprised of the Initial Account Value plus contributions plus investment earned thereon.

DC Member

A member who is entitled to a benefit under the defined contribution provision.

Pensionable Earnings

Base salary including 100% of short term incentive compensation.

Initial Account Value

For any DC Member who was a member of the NorskeCanada Plan on December 31, 1993, the lump sum value, as of December 31, 1993, of the DC Member's defined benefit.

For any DC Member who was a member of the former Pacifica Plan on January 1, 2002, the lump sum value, as of January 1, 2002, of the DC Member's defined benefit.

Eligibility for Membership

Each employee who was a member of the NorskeCanada Plan on December 31, 1993 made an irrevocable election as of December 31, 1993 to be either a defined benefit member ("DB Member") or a DC Member.

Each employee who was a member of the Pacifica Plan on January 1, 2002 made an irrevocable election as of January 1, 2002 to be either a DB Member or a DC Member.

Effective January 1, 2010, active and disabled DB Members ceased accruing future benefits under the defined benefit provision and begain participating in the defined contribution plan.

All new employees automatically become DC Members when they join the plan.

Entitlement of DC Members

Upon retirement, death, or termination a DC Member is entitled to the market value of his or her Account.

Contributions

- Prior to January 1, 2010: Each month the Company deposits 7% of Pensionable Earnings to the Account of each DC Member.

- On and after January 1, 2010: Each month the Company deposits 5% of Pensionable Earnings to the Account of each DC Member.

Investment of Accounts

A DC Member's Account is invested in accordance with the member's election of the investment options offered by the Company.

Appendix G: Certificate of the Plan Administrator

I hereby certify that to the best of my knowledge and belief:

- the significant terms of engagement contained in Appendix A of this report are accurate and reflect the plan administrator's judgement of the plan provisions and/or an appropriate basis for the actuarial valuation of the plan;
- the information on plan assets forwarded to Towers Watson Canada Inc. and summarized in Appendix B of this report is complete and accurate;
- the outstanding contributions of $2,551,687 as at December 31, 2011 have been contributed to the plan;
- the data forwarded to Towers Watson Canada Inc. and summarized in Appendix E of this report are a complete and accurate description of all persons who are members of the plan, including beneficiaries who are in receipt of a retirement income, in respect of service up to the date of the actuarial valuation;
- the summary of plan provisions contained in Appendix F of this report is accurate; and
- there have been no events which occurred subsequent to the valuation date that would materially change the plan's financial position on or after the valuation date.

Signature	Date
Name	Title

This is Exhibit "H" referred to in the affidavit of Deborah Hamann-Trou sworn before me at Vancouver this 17th day of June, 2012.

A Commissioner for taking Affidavits for British Columbia

2010 - 2011 REPORT TO MEMBERS

CATALYST PAPER CORPORATION
RETIREMENT PLAN FOR SALARIED EMPLOYEES

Catalyst

CONTENTS OF THIS REPORT

About This Report

This report focuses on the pension trust fund as it pertains to the Defined Benefit (DB) component of the Catalyst Paper Corporation Retirement Plan for Salaried Employees. It is intended to fulfill statutory disclosure requirements and to help keep you informed of pension plan matters. While the focus of the report is on the DB plan, some of the information may also be of interest to DC plan members.

CATALYST PAPER CORPORATION RETIREMENT PLAN FOR SALARIED EMPLOYEES

Catalyst Paper provides a comprehensive retirement program for salaried employees, including both Defined Benefit (DB) and Defined Contribution (DC) pension plans.

The DB plan provides a defined monthly pension benefit based on the plan's pension formula. Catalyst Paper makes contributions to the DB pension trust fund to pay for the defined benefits.

In the DC plan, Catalyst Paper makes defined contributions to the accounts of individual members who decide how the money is invested. The benefit payable when you leave or retire is not defined, but depends on how much has been contributed over the years and on the investment returns on those contributions.

Highlights from 2010

Investment performance was generally favourable during 2010. The DC plan investment return for 2010 for the balanced fund options ranged from 10.9% to 21.1%. The DB pension fund's investment performance was also strong in 2010. The favourable investment return, together with the contributions made to the DB plan by Catalyst Paper during 2010, resulted in an improvement in the financial condition of the DB plan.

Highlights from 2011

Continued turbulence in global financial markets combined with an unprecedented decline in long-term interest rates has resulted in significant pension fund losses for employer-sponsored DB pension plans. Catalyst Paper is no exception. While we have not yet determined the financial condition of the DB Plan as at December 31, 2011, we expect that the deficit will have increased.

Late Delivery

Catalyst Paper provides annual issues of *Report to Members* to ensure you are informed about your pension plan. This year, we are delivering our 2010 financial results later than usual due to the solvency funding relief application process (see page 3). Once we determine the financial condition of the plan as at December 31, 2011, we will share the results.

Restructuring Process

Through the Supreme Court of British Columbia, under the Companies' Creditors Arrangement Act (CCAA), Canadian companies can request bankruptcy protection and continue to do business. Catalyst Paper has been granted such protection.

Pension Plan Impact

Catalyst Paper intends to continue making contributions to the DB pension fund and has no intention of terminating the pension plan at this time. Pensions will continue to be paid in the normal manner.

It is also important to note that our pension plan assets are held in a pension trust fund with CIBC Mellon, and the funds are kept separate from other company money. This ensures that all assets are secure from creditors regardless of the company's financial condition.

INFORMATION FOR DEFINED CONTRIBUTION MEMBERS

Under the DC component, Catalyst Paper makes defined contributions to each member's personal account equal to 5% of his or her pensionable earnings. The member is responsible for investing these contributions within a range of investment options. At retirement, the member's DC account balance is used to provide a lifetime retirement income — through the purchase of an annuity or the transfer of the funds to a personal locked-in retirement vehicle.

DC Recordkeeper

Manulife Financial is currently the DC recordkeeper. Through the Manulife Website, DC members can view their account balances, access information about investment performance and make investment changes.

DC Investment Options

DC members have a range of professionally managed investment options with different risk/return characteristics and investment time horizons. The options below, along with the Manulife Target Date Funds, are currently available:

Investment Options	Risk/Return Potential	Investment Time Horizon
Leith Wheeler Diversified Fund	Moderate	Mid to long-term
Phillips, Hager & North Bond Fund	Moderate	Medium term
MFC Money Market	Low	Short-term
SEI Canadian Equity Fund	High	Long-term
Jarislowsky Fraser Canadian Equity Fund	High	Long-term
Black Rock US Equity Index Fund	High	Long-term
Fidelity Global Fund	High	Long-term
Templeton International Equity Fund	High	Long-term
SEI Income 20/80 Fund	Moderate	Medium-term
SEI Income 40/60 Fund	Moderate	Mid to long-term
SEI Balanced 60/40 Fund	Moderate	Mid to long-term
SEI Growth 80/20 Fund	Moderate to High	Long-term
SEI Global Growth 100 Fund	High	Long-term
Manulife Guaranteed Interest Deposit Accounts (3 and 5 yr)	Low	Short to medium-term

DC Plan Asset Allocation

It is your responsibility to actively manage your DC Plan account by reviewing your investment options and making necessary adjustments. However, if you prefer, you may wish to allocate all or a portion of your investment dollars to a target date fund.

A mix of equity and fixed income investments, the *Manulife Target Date Funds* are automatically adjusted based on the number of years remaining until the target date, in other words, your retirement date. All you have to do is determine your target retirement date and invest in the fund that most closely matches this date (funds have a date as part of their name).

We strongly suggest that you visit the Manulife website to review your current allocation and discuss your options with a financial advisor.

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DB PLAN FUNDING RELIEF

Catalyst Paper submitted an application and received approval from the Superintendent of Pensions of the Financial Institutions Commission of British Columbia (FICOM) to extend the period of time allotted to repay the deficit under the British Columbia Pension Benefits Standards Act (PBSA).

Typically, BC pension regulations provide plan sponsors a five-year time period in which to make up any pension funding shortfalls. Under our new extended period, Catalyst Paper has seven years to fund our existing pension fund deficit.

The table below shows the estimated minimum contributions required without funding relief (five-year period) and with funding relief (seven-year period) to fund the DB plan deficit:

	MINIMUM EMPLOYER CONTRIBUTION REQUIREMENTS TO FUND DEFICIT (IN $CDN)	
Calendar Year	Without funding relief	With funding relief
2011	$15,379,944	$10,114,569
2012	$15,379,944	$10,114,569
2013	$15,379,944	$10,114,569
2014	$15,379,944	$15,379,944
2015	$15,379,944	$15,379,944
2016	$0	$15,379,944
2017	$0	$8,523,057

In addition to the contributions Catalyst Paper will make under the new funding relief schedule, we are also required to make two additional payments of $550,000 on March 18, 2012 and April 15, 2012.

As the solvency funding relief will result in a short-term reduction in employer contributions to the plan, implementing these measures may reduce the security of the pension benefits accrued under the plan during the short-term. However, it is expected this reduction in security will diminish over time and will be eliminated as Catalyst Paper pays down the plan deficit. So, although we will contribute less than we otherwise would have in each of the next five years, the total amount we will have contributed at the end of seven years will be the same as what we would have contributed over five years.

All DB plan members will retain their accrued benefits and retirees and beneficiaries will continue to receive pension benefits in accordance with the terms of the plan and the requirements of the British Columbia PBSA.

DB PLAN FUNDING

To fund the DB provision of the Plan, Catalyst Paper maintains and contributes to a pension fund that is held by a custodian, which is currently CIBC Mellon. The assets are kept separate and apart from other Company money, as a way of ensuring that your retirement income is secure regardless of the Company's future operating results.

Under pension legislation, Catalyst Paper is required to have an independent actuary complete an actuarial valuation of the Plan, and to file the valuation with the BC Financial Institutions Commission and the Canada Revenue Agency, at least every three years.

The purpose of an actuarial valuation is to determine the financial health of the pension fund by comparing its assets to the value of the benefits promised to Plan members (the actuarial liabilities) as of a given date. To perform the valuation, the actuary must make a number of assumptions about the demographics of Plan members and the economy.

- Demographic factors that impact the Plan's liabilities include assumptions about when employees will retire or terminate employment, whether or not they will be married when they retire, and how long they will receive their pensions.
- Economic factors that impact the Plan's liabilities include assumptions about future growth in employees' earnings, investment returns of the pension fund, and the interest rate used to determine the commuted value of pensions.

All of the assumptions used to perform the actuarial valuation are set based on accepted actuarial practice and applicable legislation. Nevertheless, because they are assumptions, actual Plan costs will differ from estimated costs. For instance, lower than anticipated fund returns and/or a decrease in long-term interest rates can increase expected costs. As a result, no company can provide an absolute assurance that their pension plan will be 100% funded at all times.

Under the terms of the Plan, Catalyst Paper must cover all deficiencies and unfunded liabilities. When a deficit is reported, pension law requires Catalyst Paper to make special additional contributions to the Plan to offset the shortfall.

The Defined Benefit Promise

The goal of a Defined Benefit plan is to provide you with a retirement income that is based on your earnings and service with Catalyst Paper. Any year-by-year fluctuations in the value of Plan assets and liabilities do not affect the amount of your DB pension.

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FINANCIAL POSITION OF THE DB PLAN

The financial condition of the pension plan is determined by an independent actuary — in Catalyst Paper's case, Towers Watson. Pension authorities require that the actuary conduct formal pension plan valuations at least once every three years. The last formal valuation was conducted as of December 31, 2010. The next formal valuation is scheduled to be conducted as of December 31, 2013. This report presents the estimated financial condition of the pension plan as of December 31, 2010.

The actuarial valuation specifies the financial condition of the plan assuming it will continue indefinitely (known as a going concern valuation) and if it were to be terminated immediately (known as a solvency valuation).

The actuarial valuation also specifies the level of annual contributions Catalyst Paper must make to ensure there's enough money in the pension trust fund to pay out the promised pension benefits to current and future retirees.

Going Concern Financial Condition as of December 31, 2010

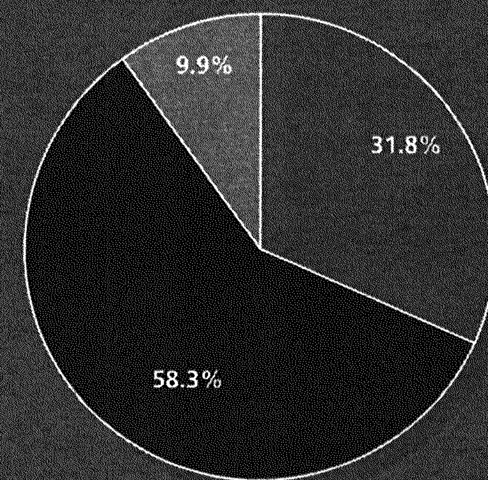
For the going concern valuation, the actuary focuses on the long-term future of the plan and makes several assumptions, such as when members will retire, how long pensioners are expected to live, and future pension trust fund investment returns. These assumptions are updated regularly to take into account the experience of the plan and the existing economic environment.

Based on the going concern valuation, as of December 31, 2010, the plan had a funding deficit of $23,328,000 and a funded ratio of 91%. In comparison, the financial position of the plan as of December 31, 2009 was a deficit of $29,897,000 and a funded ratio of 89%. The Company is making special payments over a specified period of time (as set out by pension legislation) to fund the plan deficit.

The improvement of the financial position of the plan since the last valuation is primarily due to favourable investment returns achieved in 2010 and to the additional contributions of $5,066,000 made by the Company in 2010.

Membership Profile

As of December 31, 2010, there were 1,996 Plan members, segmented as follows:



- Active members – 651
- Retired members and beneficiaries – 1,195
- Terminated vested members – 203

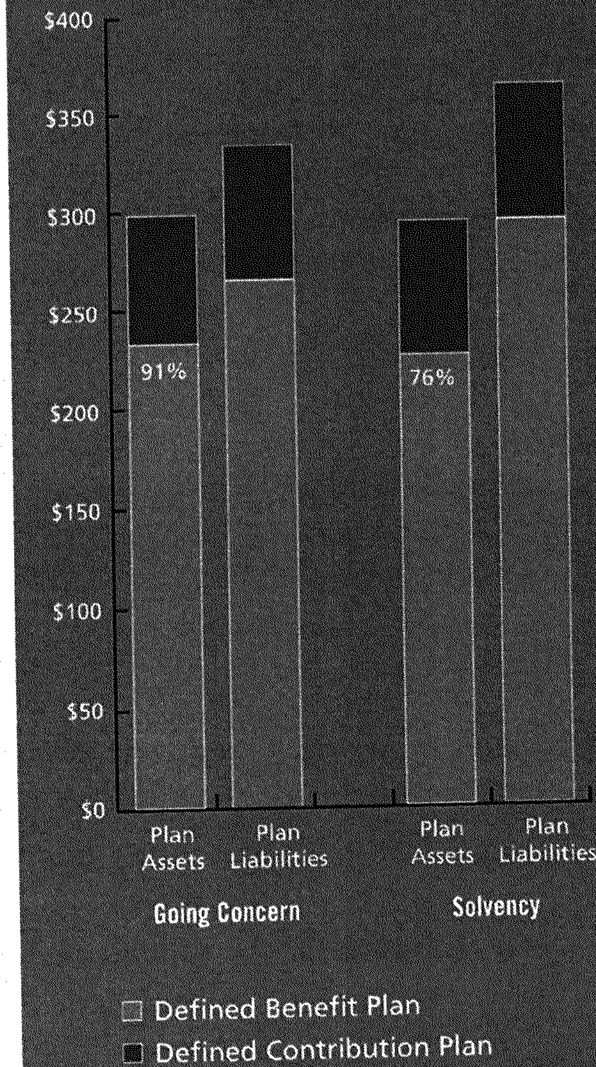
Solvency Financial Condition as of December 31, 2010

For the solvency valuation, the actuary determines the cost of settling all pension obligations as of the valuation date. This valuation is significantly affected by prevailing interest rates — so the results are more volatile and, in a low interest rate environment, will generally result in a smaller surplus or larger deficit than the going concern valuation. Such is the case for the Catalyst Paper plan, where the estimated deficit on a solvency basis as of December 31, 2010 is $73,483,000. In comparison, the estimated financial position of the plan as of December 31, 2009, on a solvency basis, was $87,759,000. The funded ratio on a solvency basis is 76% as of December 31, 2010 and 73% as of December 31, 2009.

The improvement of the financial position on a solvency basis results primarily from favourable investment returns and the additional contributions by the Company. The Company is currently making special payments to reduce the funding deficit on a solvency basis.

Financial Position as at December 31, 2010

(millions of $)



DB PLAN INVESTMENT POLICY

Money in the DB pension trust fund is professionally invested by outside investment managers, according to specific investment policies and guidelines. While investment returns will vary from year to year, the focus is on the long-term — ensuring that investment returns are sufficient, over the long term, to meet the pension promise.

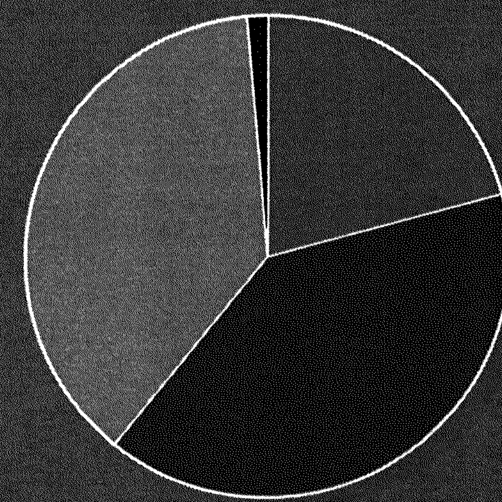
The underlying assumptions are that:

- Over the long term, there will be higher investment returns for accepting greater risk; *and*
- Prudent diversification among asset classes will produce an optimal risk/return balance.

To meet the investment objectives, the money is invested in a mix of stocks, bonds and short-term instruments. Stocks are expected to generate higher long-term returns than most other asset classes, with greater volatility and risk. Bonds offer security at a lower rate of return. And, short-term instruments provide the liquidity needed to make benefit payments and pay administrative expenses, with minimal risk.

DB Fund

As of December 31, 2010, the portion of the investments in each asset class is as follows:



- Canadian Equities – 20.9%
- Global Equities – 40.2%
- Bonds – 37.7%
- Short-term Investments – 1.2%

2010 GENERAL MARKET SUMMARY

In 2010, an effort to sustain the economic recovery seen in 2009 continued with U.S. and European federal governments lowering interest rates while trying to keep deficits under control.

Canadian and U.S. equity markets outperformed most foreign equity markets. International performance was subdued due to the European economic climate in Greece, Ireland, Italy and Spain.

The Canadian dollar appreciated against the U.S. dollar and remained relatively stable against other major currencies.

Fixed income markets posted gains over the year, with long bonds outperforming universe bonds.

DB Plan Investment Performance

The Catalyst Paper pension fund posted positive returns and was ahead of its benchmark by 1.8%, ranking in the top quartile of the Towers Watson Diversified Universe. The market value (net of contributions, withdrawals and expenses) increased from $233 million to $239 million a year earlier.

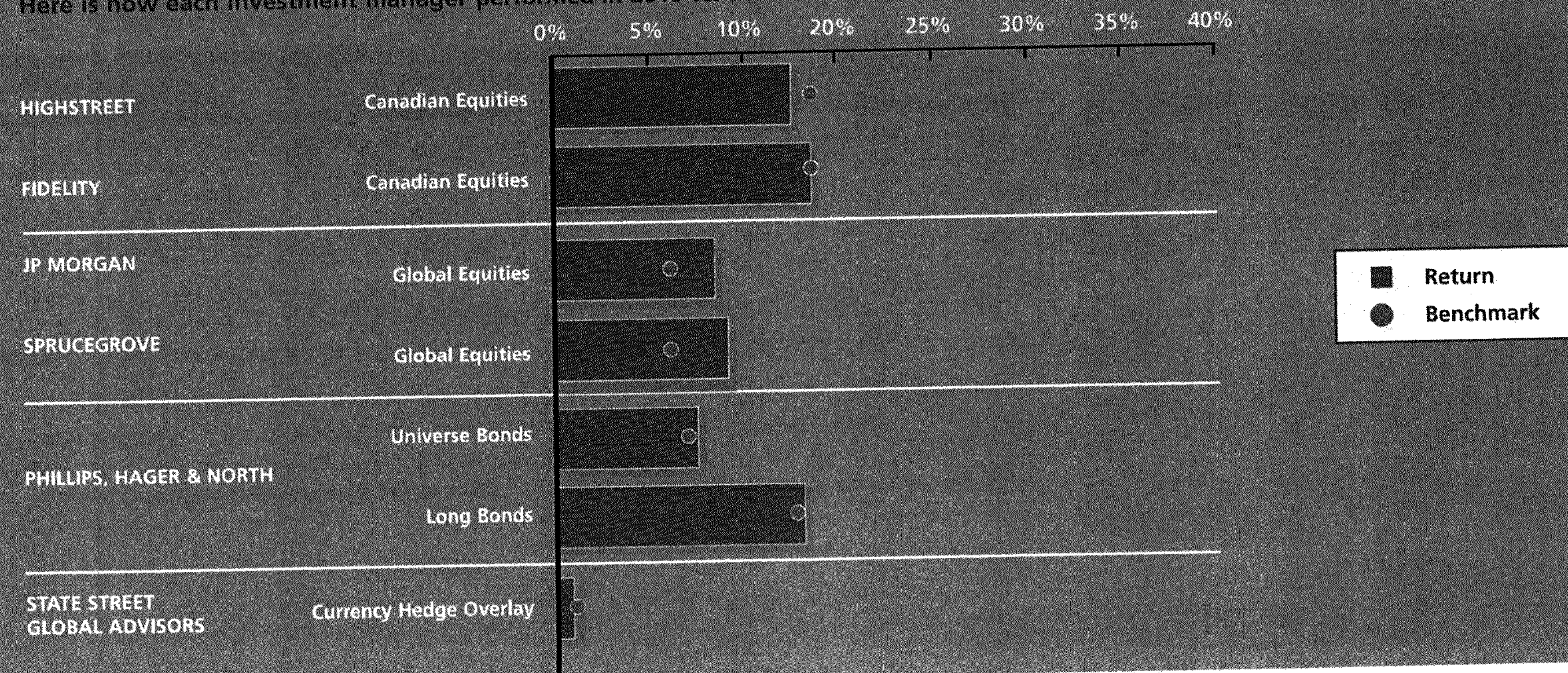
With the exception of Highstreet, all fund managers outperformed their benchmarks for the one-year period. Sprucegrove Global Equity provided the highest value for the year, outperforming the benchmark by 6.6%, followed by JP Morgan with an added value of 3.0%.

Historical Returns

Here are average annual DB plan pension fund returns for different time periods ending December 31, 2010:

1-Year (2010): 11.6%
4-Year (2006 – 2010): 1.0%

Here is how each investment manager performed in 2010 vs. their benchmarks:



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MEMBER SERVICES

Catalyst Paper provides a number of services to active and retired members of the Retirement Plan.

If you have questions about the DB Plan, or your DB pension, contact Towers Watson, the DB plan administrator, toll-free at 1-866-220-2424 or via email at catalystpaper@towerswatson.com.

If you have questions about the DC plan or your DC account, contact Manulife Financial, the plan administrator, toll-free at 1-888-727-7766 or via email at gromail@manulife.com. View your account balance and asset mix by visiting Manulife Financial's website at www.manulife.ca/GRO.

DEFINITIONS

Actuary

A professional trained in the technical and mathematical aspects of pension plans. The actuary estimates how much money must be contributed to the DB Plan each year in order to support the benefits that will become payable in the future.

Benchmark

A measure against which an investment portfolio's performance is compared. The benchmark is typically a major market index, such as the S&P/TSX Capped Composite Index (for Canadian Equities), the S&P 500 Index (for US Equities), the MSCI EAFE Index (for International Equities), and the Scotia Capital Long Term Bond Index (for Canadian Bonds).

Beneficiary

A person who, on the death of an employee or retiree, may become entitled to a benefit under the Plan.

Commuted value

The lump sum value of a future pension benefit in today's dollars. The commuted value can fluctuate significantly due to changes in long-term interest rates.

Defined Benefit Plan

A plan under which benefits at retirement are determined based on a formula that reflects the member's earnings and years of membership.

Defined Contribution Plan

A plan under which contributions are defined and benefits at retirement are determined based on the contributions and related investment returns accumulated in a member's individual account.

Going concern basis

A valuation method used to determine pension fund liabilities assuming the Plan will continue into the future.

Pension fund

A trust fund held by an appointed Trustee through which the company funds Retirement Plan benefits. The pension fund is regulated by pension legislation and is separate from Company assets.

Plan assets

The current market value of the assets held in the pension fund.

Plan liabilities

The present value of the total benefit obligations of the Plan. Plan liabilities will vary depending on the purpose of the calculation and the actuarial method used.

Plan termination basis

A valuation method used to determine pension fund liabilities assuming the Plan is terminated on the valuation date.

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This is Exhibit "I" referred to in the affidavit of Deborah Hamann-Trou sworn before me at Vancouver this 17th day of June, 2012.

A Commissioner for taking Affidavits for British Columbia

Catalyst
Fresh thinking on paper

Catalyst Paper seeks support from secured noteholders for amendment to plan of arrangement

Release Date: Monday, June 11, 2012

Monday, June 11, 2012

Richmond, BC – Catalyst Paper today announced that it is seeking the support of its secured noteholders for a proposed amended plan of arrangement (Amended Plan) under the Companies' Creditors Arrangement Act. Catalyst requires the support of certain of its secured noteholders under the terms of a Restructuring and Support Agreement (RSA) in order to seek approval of an Amended Plan. Accordingly, Catalyst has presented the primary terms of the Amended Plan to its secured noteholders for consideration and is in discussions with certain of its other secured and unsecured creditors regarding the Amended Plan.

"We continue to receive and consider input from various parties on further amendments to the plan in an effort to secure a consensual deal that improves our financial structure and that addresses the interests of creditors, our workforce, pensioners and community leaders. In the meantime, the sales and investor solicitation process is proceeding so that regardless of which restructuring pathway is ultimately agreed to, Catalyst can emerge from creditor protection in an effective and timely manner," said President and Chief Executive Officer Kevin J. Clarke.

The proposed changes to the plan of arrangement include the compromise of certain extended health benefits plans for former salaried employees of Catalyst that were not to be compromised under the prior plan of arrangement. All claims in connection with the elimination of the extended health benefits would be General Unsecured Claims pursuant to the Amended Plan and would be entitled to vote with all other General Unsecured Claims under the Amended Plan. Catalyst has been advised that there is substantial support for the Amended Plan by the holders of the extended health benefits claims that would be compromised under the Amended Plan. In addition, certain holders of Unsecured Notes who previously voted against the plan of arrangement or did not vote on the plan of arrangement have indicated that they would support the Amended Plan. Further, there may be additional unsecured claims voted in favour of the Amended Plan that when combined with the foregoing would be sufficient to yield creditor approval from the unsecured class.

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In addition, Catalyst has proposed modifications to its salaried pension plan to provide for a special portability election option and solvency funding relief which require provincial government approval. The Minister of Finance has confirmed that he is prepared to submit the proposal to Cabinet for its consideration with a recommendation in favour. The company estimates that it would save approximately $7 million annually if these modifications were implemented following a successful plan of arrangement.

In the event that Catalyst obtains the requisite support of its secured noteholders to move forward with the Amended Plan under the RSA, the company will seek an order of the Court to hold a further meeting of the secured and unsecured creditors to vote on the Amended Plan as soon as reasonably practicable.

While the Amended Plan is being considered, Catalyst will continue to implement the Court-approved sale and investor solicitation process (SISP). Catalyst will suspend the SISP only in the event that the Amended Plan is approved by its secured and unsecured creditors and approved by the Court at a sanction hearing.

Further Information and Monitor Contact Information

Additional information is contained on the Monitor's website, which is available at http://www.pwc.com/ca/en/car/catalyst-paper-corporation/index.jhtml and in Catalyst Paper's information circular dated March 23, 2012 (the Circular) available on SEDAR (www.sedar.com), EDGAR (www.sec.gov) and Catalyst Paper's web page (www.catalystpaper.com). Terms used in this news release that are defined in the Circular have corresponding meanings.

Creditors who have questions may contact the Monitor at PricewaterhouseCoopers Inc., 250 Howe Street, Suite 700, Vancouver, British Columbia, V6C 3S7 (Attention: Patricia Marshall), phone: 604-806-7070 or email: catalystclaims@ca.pwc.com.

General Information

Catalyst Paper manufactures diverse specialty mechanical printing papers, newsprint and pulp. Its customers include retailers, publishers and commercial printers in North America, Latin America, the Pacific Rim and Europe. With four mills, located in British Columbia and Arizona, Catalyst has a combined annual production capacity of 1.8 million tonnes. The company is headquartered in Richmond, British Columbia, Canada and is ranked by Corporate Knights magazine as one of the 50 Best Corporate Citizens in Canada.

Forward-Looking Statements

Certain matters set forth in this news release, including statements with respect to implementation of the SISP and the possibility of an Amended Plan are forward looking. These forward-looking statements reflect management's current views and are based on certain assumptions including assumptions as to future operating conditions and courses of action, economic conditions and other factors management believes are appropriate. Such forward looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in these statements, including

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failure to obtain required approvals and those risks and uncertainties identified under the heading "Risk Factors" in the Circular and under the heading "Risks and Uncertainties" in Catalyst's management's discussion and analysis contained in Catalyst's annual report for the year ended December 31, 2011 and report for the first quarter of 2012, all of which are available at www.sedar.com.

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Alistair MacCallum
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604-247-4037

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Vice President, Marketing & Corporate Responsibility
604-247-4713

Source URL: http://catalystpaper.com/media/news/community/catalyst-paper-seeks-support-secured-noteholders-amendment-plan-arrangement