

Fraser Papers Announces Financial Results for the Third Quarter of 2009

(All financial references are in U.S. dollars unless otherwise noted)

TORONTO, ON (November 2, 2009) – Fraser Papers Inc. (“Fraser Papers” or the “Company”) today reported financial results for the third quarter ended October 3, 2009. The Company generated an EBITDA loss of \$10.0 million in the third quarter compared to an EBITDA loss of \$9.9 million in the second quarter.

The net loss in the third quarter totaled \$65.1 million or \$1.30 per share compared to a loss of \$8.0 million or \$0.16 per share in the second quarter. During the third quarter the Company recorded an impairment charge of \$42.3 million related to its pulp mill in Thuroso, Québec which has been closed indefinitely since June 5, 2009. During the second quarter, the Company recorded a gain of \$12.5 million from unwinding its foreign exchange hedging program.

On June 18, 2009, citing continued operating losses, weak markets for pulp and lumber, impending debt repayments and significant pension funding obligations, the Company and its subsidiaries filed for creditor protection under the *Companies Creditors Arrangement Act* (“CCAA”) in Canada and Chapter 15 of the U.S. *Bankruptcy Code*. Fraser Papers has continued to work with its major stakeholders to develop a plan that would see the Company restructure around its core specialty papers operation. During the quarter, significant progress was made, particularly in labour negotiations and discussions with secured creditors. Fraser Papers expects to file a restructuring proposal prior to the expiry of its current stay period on December 4, 2009.

OVERVIEW

- With strong support from the Government of New Brunswick, completed the modernization of the Plaster Rock lumbermill which will reduce the production costs at the mill by 20%.
- Reached agreements with unionized employees at the Plaster Rock lumbermill and the Edmundston pulp and energy facility regarding new labour agreements which resulted in more competitive fixed cost structure for these operations.
- Secured approximately 70% of the annual third-party chip requirements in New Brunswick at prices significantly below those paid prior to the restart of the Edmundston pulp mill.
- Received confirmation that the Federal Government had allocated to Fraser Papers CAD\$33.1 million in credits under the Pulp and Paper Green Transformation Program.
- Secured funding from the Government of Québec for care and maintenance costs at the Thuroso pulp mill until February 1, 2010.
- Reached consensus with the Company’s secured lenders with respect to a framework for restructuring focused around Fraser Papers’ specialty papers business.
- Recorded an impairment charge of \$42.3 million related to the Company’s pulp mill in Thuroso Québec.
- Subsequent to the quarter end, received an extension of the stay of protection to December 4, 2009.

US\$MILLIONS, EXCEPT PER SHARE AMOUNTS	Three Months Ended		
	Oct 3, 2009	Jul 4, 2009	Sep 27, 2008
EBITDA	\$ (10.0)	\$ (9.9)	\$ (12.2)
Loss	\$ (65.1)	\$ (8.0)	\$ (21.3)
Per share	\$ (1.30)	\$ (0.16)	\$ (0.42)

“We spent considerable time this quarter meeting with key stakeholders to develop a framework for a restructuring of the Company,” said Peter Gordon, CEO of Fraser Papers. “We have made significant progress, however there is much left to do as we target presenting a proposal for stakeholders to consider in the coming weeks. Our objective is to emerge with a sustainable and profitable specialty papers business focused around our East Papers manufacturing complex.”

MARKET UPDATE AND OPERATING RESULTS

Paper

Market conditions in the North American paper industry continue to be challenging. Estimated demand across all printing and writing grades has fallen 22% in the first nine months of 2009 compared to 2008. Lower advertising spending has seen a number of publishers announce magazine closures and a number of newspaper publishers scramble to restructure their debt.

Paper shipments from the Company’s two paper mills in Madawaska, Maine and Gorham, New Hampshire in the first nine months of 2009 are lower than 2008 levels by 15% with commodity papers seeing the largest declines. Fraser Papers focuses on specialty packaging and printing grades allowing the Company to target applications that are less sensitive to overall economic demand weakness.

Reference prices (50# offset rolls) during the quarter are 12% lower compared to the third quarter of 2008 on weaker economic activity. Average mill net prices for the Company’s paper products, however, are only 1% lower compared to the same period in 2008. Specialty printing papers have seen only modest price reductions compared to the same period last year, while prices for specialty packaging grades have increased by 1%.

The Company’s paper operations recorded negative EBITDA of \$3.6 million in the third quarter of 2009 compared to positive EBITDA of \$0.7 million in the second quarter and negative \$9.2 million in the third quarter of 2008. The quarterly results were negatively affected by extended downtime at the Edmundston pulp mill during labour negotiations and a stronger Canadian dollar relative to the second quarter of 2009. The Edmundston sulphite pulp mill was closed from early June until August 28, 2009, during which time the Company and its unionized employees negotiated a new three year collective agreement. The fixed costs absorbed during this downtime amounted to approximately \$3.3 million during the quarter.

On a year-to-date basis, the Company generated negative EBITDA of \$1.2 million from its paper operations compared to negative \$20.0 million in 2008. The \$18.8 million year-over-year improvement is due to improved selling prices, reduced shipments of commodity papers, lower fibre costs and the benefit of a weaker Canadian dollar, partly offset by higher pension costs and the impact of market-related and maintenance downtime.

During the quarter, the Company took additional market-related downtime to match paper production with customer orders. Total downtime amounted to approximately 11,000 tons or 7% of production capacity.

Pulp

The Company’s pulp operations generated negative EBITDA of \$4.6 million in the quarter, representing the carrying costs of the Thuroso mill which remained shut for the entire quarter.

Subsequent to the end of the quarter, the Company reached an agreement with the Québec Ministry of Economic Development, Innovation and Export (“MEDIE”) to fund required mill care and maintenance

costs through February 1, 2010. During this period, the Company and the MEDIE will continue to explore opportunities that could see a restart of the facility.

During the third quarter, the Company recorded a charge of \$42.3 million related to its pulp mill in Thuro, Québec including an impairment charge related to property, plant and equipment of \$30.7 million, a charge related to raw materials and spare parts inventories of \$4.7 million, and other charges and termination benefits, of \$6.9 million. Termination benefits have been recorded as liabilities subject to compromise.

Lumber

U.S. housing markets remain depressed with new housing starts at historical lows. The benchmark price for lumber (delivered to Boston) improved seasonally during the quarter to \$278 per Mfbm, up 9% from the second quarter.

During the quarter, Fraser Papers operated its lumbermills at only 7% of capacity. As a result, the lumber operations generated negative EBITDA of \$1.8 million in the quarter.

The modernization of the Plaster Rock, New Brunswick lumbermill was completed during the quarter, under the initial budget of CAD\$17.6 million. The Company is completing equipment testing and considering a restart of the facility.

RESTRUCTURING INITIATIVES

On June 18, 2009, Fraser Papers filed for creditor protection under the CCAA and Chapter 15 of the U.S. *Bankruptcy Code* in order to provide the Company with the necessary time to restructure its affairs and emerge with a sustainable and profitable specialty papers business. The Company is developing a reorganization plan to present to its creditors during the fourth quarter of 2009.

The Company completed a number of initiatives during the quarter that will contribute to a restructuring of Fraser Papers:

- With strong support from the Government of New Brunswick, completed the modernization of the Plaster Rock, lumbermill which will reduce the production costs at the mill by 20%.
- Reached agreements with its unionized employees at the Plaster Rock lumbermill and the Edmundston pulp and energy operation with respect to new labour agreements which will result in a more competitive fixed cost structure at these facilities.
- Provided notice to all Canadian and U.S. salaried employees that their current defined benefit pension arrangements would be frozen during the fourth quarter in favour of a defined contribution benefit for future service.
- Secured approximately 70% of the annual third-party chip requirements in New Brunswick at prices significantly below those paid prior to the restart of the Edmundston pulp mill.
- Received confirmation that the Federal Government had allocated to Fraser Papers CAD\$33.1 million in credits under the Pulp and Paper Green Transformation Program. These funds can be used to improve the energy efficiency and environmental performance of the Company's pulp mill in Edmundston, New Brunswick.
- Secured funding from MEDIE for care and maintenance costs at the Thuro pulp mill until February 1, 2010 to allow the Company and MEDIE to continue to explore options for the mill.
- Rationalized post-retirement benefit plans for salaried employees from six plans to two, eliminating benefits that overlap with government-sponsored health care programs in Canada and the United States.

- Undertook extensive discussions with the Company's secured lenders to develop a possible framework for restructuring, focused around Fraser Papers' specialty papers business.

On October 22, 2009, Fraser Papers received an extension of its stay of proceedings to December 4, 2009. Prior to that date, the Company expects to present a restructuring proposal for consideration by its creditors and other stakeholders. However, the Company cautions that there are still significant issues that require resolution including discussions with certain unions, government regulators and creditors, and that these discussions may not result in agreement between the various stakeholders. An inability to reach agreement with these parties on certain matters could jeopardize the restructuring of Fraser Papers.

OUTLOOK

The Company will maintain its focus on superior customer service and managing its operations while it restructures in these challenging economic times. Operating rates at its mills will be adjusted to match customer orders and capital allocation will be tightly managed. While demand for specialty papers has not dropped by as much as commodity papers, increased demand is not forecast until overall economic activity improves. Fraser Papers will continue to develop new products and work directly with customers to retain market share in segments where it can be competitive and well positioned to benefit when economic activity improves.

Lumber prices are not expected to improve without a sustained recovery in the U.S. housing market. The Company manages operating rates at its lumbermills based on chip requirements at its East Papers operations.

Fraser Papers will continue discussions with its key stakeholders with the objective of filing a restructuring proposal prior to the expiry of its stay of protection on December 4, 2009.

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Fraser Papers is an integrated specialty paper Company that produces a broad range of specialty packaging and printing papers. The Company has operations in New Brunswick, Maine, New Hampshire and Québec. For more information, visit the Fraser Papers web site at www.fraserpapers.com.

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Note: This press release contains forward-looking information and forward-looking statements within the meaning of Canadian provincial securities laws. These forward-looking statements include, among others, statements with respect to possible future intentions, filing and presenting a restructuring plan, reduced production costs at the Plaster Rock lumbermill, the business after restructuring, the Company's expectations and estimations with respect future market conditions, the future of the Thuro pulp mill, the impact of new labour agreements on the cost structure at certain of the Company's operations, the Company's expectations with respect to its operations or various costs that could impact the business, and the expected impact of specific events on financial results in future quarters. The words "expect", "will", "target", "objective", "continue", "estimate", "focus", "explore", "could", "remain", "can", "possible", "may", "forecast", variations of those words, and other expressions which may be predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. Factors that could cause actual results, performance or achievements of the Company to differ materially from those set forth in the forward-looking statements include general economic conditions, inability to resolve significant issues in order to restructure the Company, unforeseen production issues, increases in production costs, changes in demand or price increases or reductions for any of the Company's products, decisions by government, political or regulatory bodies in Canada or the United States and other risks detailed from time to time in the documents filed by the Company with the securities regulators in Canada. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.