

FRASER PAPERS FILES RESTRUCTURING PROPOSAL PREPARES TO EMERGE FROM CREDITOR PROTECTION

**Proposes to Focus on Specialty Papers Business
Other Assets to be Sold Over Time**

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

Toronto, ON (December 3, 2009) – Fraser Papers Inc. (“Fraser Papers” or the “Company”) announced today that it has filed a proposal with the Ontario Court overseeing its restructuring proceeding under the *Companies’ Creditors Arrangement Act* (“CCAA”) for a hearing on December 10, 2009. The Company will be filing similar materials with the U.S. Court in Delaware, which oversees the Company’s ancillary proceeding under Chapter 15 of the U.S. *Bankruptcy Code*.

Fraser Papers is seeking Court approval of a firm, binding offer to purchase its core specialty papers business as a going concern, thereby preserving employment for employees at those facilities. The transaction will result in all debt owing to the Company’s three secured lenders being repaid or otherwise satisfied. The new company (“Newco”) will assume certain payables and long-term liabilities associated with this business, and will pay non-cash consideration of approximately \$65 million which will be used by the Company to partly satisfy the claims of unsecured creditors, including the pension plans. Further, the transaction will provide the Company with the basis upon which its specialty papers business can exit from creditor protection with advantages in energy and fibre, a lower fixed cost structure, a conservative balance sheet and adequate liquidity.

“The new paper company will be significantly smaller but will be viable and more competitive in fewer market segments,” said Peter Gordon, CEO of Fraser Papers. “Importantly, the business will have much less risk, with lower exposure to foreign exchange as well as lumber, market pulp and oil prices.”

“We are pleased to have been able to put together such a comprehensive transaction for the benefit of Fraser Papers’ creditors, employees, suppliers and customers,” said Mr. Gordon. “While there are outstanding conditions that must be met, we are confident that with the continuing support of our key stakeholders, those hurdles can be overcome.”

Newco will benefit from significant cost reductions, in excess of \$30 million on an annual basis, including:

- Approximately \$8 million as a result of lower electricity prices from the proposed sale of NB Power to Hydro Québec;
- Additional allocation of crown logs, chips and biomass in New Brunswick, which will improve its fibre position;
- Job reductions, many through attrition and retirement, and new wage and benefit agreements;

- Funding from the Canadian Federal Government's Green Transformation Program for high-return capital projects in Edmundston, providing substantial long-term savings;
- Benefits from the recent completion of a modernization project at the Plaster Rock lumbermill, which provides security of lower cost softwood chips; and
- Further improvements in energy efficiency resulting in reduced energy costs.

With these cost reductions, Newco will be well positioned within its market segment.

The Company is proposing a two-stage process to complete its restructuring:

- Firstly, the sale of assets to Newco focused on the core business in Edmundston, NB and Madawaska, ME with the following attributes:
 - Growth opportunities in focused markets, despite the challenging market environment;
 - A favourable product mix, with 95% of its sales in specialty products for the packaging and specialty print segments;
 - Proven product development capabilities, currently turning over 30% of its product offering every two years;
 - Highly rated customer service and technical field support; and
 - A renewable energy platform with a biomass power cogeneration plant and recovery boiler operation at Edmundston that lowers operating costs and has limited requirements for fossil fuels.
- The second stage will involve an orderly disposition of the Company's remaining assets that are non-core to the specialty papers business. This includes the Gorham paper mill in New Hampshire, which is operating and profitable; the two lumbermills in Ashland and Masardis, both in Maine, which have operated intermittently during the last two years; and the Thurso pulp mill in Québec, currently on indefinite shutdown.

The offer submitted to the Court by Fraser Papers on December 3, 2009 involves a sale of the specialty paper assets in Madawaska and Edmundston, as well as the two New Brunswick lumbermills located in Plaster Rock and Juniper, to Newco. Under the terms of the offer, Brookfield Asset Management Inc., a secured creditor, has agreed to convert its claim against the Company into a 51% common equity ownership in Newco. The Government of New Brunswick also agreed to convert its \$35 million secured loan plus accrued interest into equity in the form of preferred shares of Newco. CIT Business Credit Canada Inc., the Company's existing working capital lender, has agreed to provide a \$50 million revolving credit facility to Newco from which its existing secured loans to the Company will be repaid or otherwise satisfied on closing. Newco will also issue common shares, representing a 49% interest in Newco, and promissory notes to the unsecured creditors of Fraser Papers, as further consideration for the assets purchased.

In order to ensure that the price under the proposed sale transaction is the best possible, Fraser Papers will seek superior bids through a court-supervised process for a period of approximately 60 days.

The proceeds from the sale of these assets will be used to partially settle the remaining claims against Fraser Papers. The Company will accumulate the balance of proceeds from the initial sale, plus additional proceeds from the sale of the remaining assets, prior to distributing to its unsecured creditors. The ultimate recovery for unsecured creditors will be dependent, in part, upon the long term success of the new company.

The Company's motion seeking approval of the sale transaction will be heard by the Ontario Court on December 10, 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: the restructuring proposal filed by the Company; the proposed transaction; repayment or satisfaction of debt owing to the Company's three secured lenders; the potential future success of and cost reduction benefits to Newco; lower electricity prices resulting from the proposed sale of NB Power. The words "propose", "seek", "will", "can", "grow", variations of those words and other words and 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 of the restructuring, the proposed transaction, debt repayment, the success of Newco and anticipated lower electricity prices resulting from the proposed sale of NB Power to differ materially from those set forth in the forward-looking statements include: unforeseen administrative, legal, transactional, operational or production issues; inability to meet certain conditions and/or to reach agreement with all parties to the proposed transaction; the market position of Newco's competitors; non-completion of the sale of NB Power; general economic conditions; prices and demand for Newco's products; cost of fibre, energy and chemicals; sales and marketing performance; union negotiations; and, other risks detailed from time to time in the documents filed by the Company with the securities regulators in Canada. In addition, the Company and its subsidiaries are currently operating under creditor protection laws in Canada and the United States. Many of the Company's plans are subject to the review of commercial courts in Canada and the United States. The Company cannot anticipate when such plans will be the subject of consideration by the commercial courts or, if they are, what impact that consideration will have on the plans or intentions of the Company. 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.