



# News Release

For Immediate Release

TSX: SFK.UN

## SFK PULP ANNOUNCES 2009 4<sup>TH</sup> QUARTER AND YEAR-END RESULTS AS WELL AS ITS PLAN TO CONVERT INTO A CORPORATION

### FOURTH QUARTER HIGHLIGHTS

- EBITDA<sup>(1)</sup> of \$0.4 million (which includes a one-time \$1.4 million restructuring cost) compared to \$6.2 million in the fourth quarter of 2008
- Planned maintenance outage in December at our Saint-Félicien Mill extended for additional work on the recovery boiler
- Net loss of \$15.7 million, or \$0.18 per unit, versus net earnings of \$4 million, or \$0.04 per unit for the fourth quarter of 2008
- SFK Pulp was allocated a \$20.9 million credit from the Pulp and Paper Green Transformation Program of the Canadian federal government
- SFK Pulp was selected pursuant to a call for tenders issued by Hydro-Québec for the purchase of power co-generated by biomass

### YEAR-END HIGHLIGHTS

- EBITDA<sup>(1)</sup> of negative \$11.9 million, down \$58.9 million from 2008
- Cost reduction initiatives surpassed target by approximately 20%
- 148,000 tonnes of pulp market-related downtime in 2009
- Net loss amounted to \$79.2 million in 2009, compared to net earnings of \$17.1 million in 2008

**Longueuil, Québec, February 24, 2010** – SFK Pulp Fund (TSX: SFK.UN) today announced results for the fourth quarter and year ended December 31, 2009. Fourth quarter sales totalled \$115.7 million, compared with \$125.1 million for the fourth quarter of 2008, while earnings before amortization, financial charges and income taxes (EBITDA)<sup>(1)</sup> amounted to \$0.4 million compared to \$6.2 million for the corresponding quarter of 2008. The net loss for the quarter totalled \$15.7 million, compared with net earnings of \$4.0 million for the fourth quarter of 2008.

For the year ended December 31, 2009, sales were \$389.3 million, down from \$532.0 million a year ago. EBITDA was negative \$11.9 million, compared with \$47 million positive in 2008. Net loss totalled \$79.2 million, compared with net earnings of \$17.1 million in 2008.

### FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars except per Unit amounts)	Three months ended December 31 (unaudited)		Year ended December 31 (audited)	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Sales</b>	115,729	125,132	389,299	532,033
<b>EBITDA<sup>(1)</sup></b>	359	6,192	(11,889)	47,001
<b>Net (loss) earnings</b>	(15,744)	3,964	(79,169)	17,120
<b>Net (loss) earnings per Unit (basic)</b>	(0.18)	0.04	(0.88)	0.19

Commenting on the fourth quarter results, Pierre Gabriel Côté, President and Chief Executive Officer, said: "Despite the scheduled maintenance outage and the additional repairs required on the boiler at the Saint-Félicien Mill as well as the one-time restructuring cost, we completed the fourth quarter with a positive EBITDA. We wish to thank our employees for their contribution in this achievement. Pulp demand returned to normal production levels, therefore no market-related downtime was taken at any of our Mills during the fourth quarter. Economic and pulp market indicators have significantly shifted, leading us to believe that the bottom of the economic downturn is now behind us."

## **OPERATING RESULTS**

### **FOURTH QUARTER 2009**

Consolidated sales declined to \$115.7 million in the fourth quarter of 2009, compared with sales of \$125.1 million in the fourth quarter of 2008. The \$9.4 million reduction in sales is attributable to lower RBK pulp sales at the Fairmont and Menominee Mills for \$18.6 million, which were partially offset by an increase of NBSK pulp sales at the Saint-Félicien Mill by \$9.2 million. The decrease in RBK pulp sales is mainly due to lower sales prices, partly offset by a higher sales volume. The increase in NBSK pulp sales is mainly attributable to a higher sales volume, partly offset by lower sales prices.

In the fourth quarter of 2009, SFK Pulp recorded EBITDA of \$0.4 million and a net loss of \$15.7 million, or \$0.18 per unit. This compares with EBITDA of \$6.2 million and net earnings of \$4.0 million, or \$0.04 per unit, in the fourth quarter of 2008.

### **Distributions**

In January 2009, the Board suspended distributions and does not expect to reinstate such distributions in the foreseeable future.

### **2009 YEAR-END**

For the year ended December 31, 2009, total sales reached \$389.3 million, a decrease of \$142.7 million when compared to sales of \$532.0 million in 2008. This decrease is attributable to lower sales volume and prices in both RBK and NBSK segments, partially offset by a favourable exchange rate.

For the year 2009, market-related downtimes have resulted in approximately 71,000 tonnes of NBSK pulp and approximately 77,000 tonnes of RBK pulp removed from production. Management remained focused on proactively balancing inventory levels with the order book.

EBITDA amounted to negative \$11.9 million in 2009, compared to \$47.0 million in 2008. The \$58.9 million decrease in EBITDA is mainly due to lower sales volume and prices in both RBK and NBSK segments, partially offset by a favourable exchange rate and lower input costs in the RBK segment, mainly wastepaper and energy.

The net loss was \$79.2 million, or \$0.88 per unit (basic and diluted) compared with net earnings of \$17.1 million, or \$0.19 per unit (basic and diluted), in 2008. This \$96.3 million reduction is mainly attributable to lower EBITDA, higher financial charges, losses on derivative instruments and foreign currency translation in 2009 compared to gains in 2008, as well as a non-cash future income tax recovery of \$12.6 million recorded in 2008 as a result of changes in the estimated temporary differences expected to reverse in or after 2011.

A special cost reduction program was successfully implemented throughout 2009. The program accounted for three phases with emphasis on margins, variable costs, sales, general and administrative costs (SG&A), liquidity optimization, fixed costs and labour costs. At the end of 2009, phases I and II of the cost reduction program surpassed targets to achieve results of 122% and 117%, respectively. The third phase was implemented in the early part of December and focused on reducing labour costs by 10%.

“2009 was a transition year. We have made several significant changes in 2009 and we strongly believe that we now have all fundamental ingredients necessary to maximize the effect of our strategy and therefore position SFK Pulp to favourably benefit from market opportunities,” added the President and Chief Executive Officer, Pierre Gabriel Côté, on the year-end results.

## **SEGMENT REVIEW**

### **NBSK Pulp**

Fourth quarter sales were \$59.4 million, compared with \$50.2 million for the same period of 2008, an increase of \$9.2 million, or 18.3%. The NBSK pulp sales volume reached 82,397 tonnes, 17,502 tonnes higher than in the corresponding quarter of 2008 mainly due to customers' market-related downtime taken in 2008. EBITDA for NBSK pulp operations was \$0.9 million, compared to negative \$3.5 million in 2008.

NBSK market pulp prices (for pulp delivered in Northern Europe) increased by US\$89 per tonne, or 13%, on average compared to the fourth quarter of 2008. However, the year-over-year increase in the value of the Canadian currency versus the US dollar combined with an unfavourable market mix resulted in an average sales price of \$721 in the fourth quarter of 2009, compared with \$773 in the fourth quarter of 2008.

For the year ended December 31, 2009, sales totalled \$206.1 million, down \$45.3 million or 18%, compared with \$251.4 million for the corresponding period of 2008. The decrease in sales is mainly attributable to lower selling prices and an unfavourable market mix for \$50.6 million as well as a lower sales volume for \$8.1 million, partly offset by a favourable exchange rate for \$13.4 million.

In 2009, 21% of our sales of NBSK pulp were realized in Canada, 49% in the United States, 26% in Europe and 4% in other regions. Over the same period last year, these percentages were 21%, 56%, 19% and 4%, respectively.

On a per tonne basis, cost of sales increased by 0.5% when compared to 2008. The increase results mainly from a restructuring charge taken in December of 2009, higher fibre costs and lower production, partly offset by lower chemical and energy costs.

### **RBK Pulp**

For the fourth quarter, the RBK pulp segment recorded sales of \$56.3 million, compared with \$74.9 million for the corresponding quarter of 2008. The RBK sales volume reached 90,589 tonnes in the fourth quarter of 2009, an increase of 5.2% compared to a sales volume of 86,073 tonnes in the fourth quarter of 2008. The increase in the RBK pulp sales volume in the fourth quarter of 2009 is mainly due to a major equipment failure that occurred at the Fairmont Mill in October 2008.

For the year ended December 31, 2009, sales totalled \$183.2 million, compared with \$280.7 million for 2008. This \$97.5 million reduction in sales is attributable to lower sales prices and an unfavourable market mix for \$58.1 million as well as a lower sales volume for \$51.3 million, partly offset by a favourable exchange rate for \$11.9 million.

In 2009, 80% of our sales of RBK pulp were realized in the United States, 12% in Europe and 8% in other regions. Over the same period last year, these percentages were 90%, 7% and 3%, respectively.

On a per tonne basis, cost of sales decreased by 20% when compared to 2008. The reduction is mainly due to lower wastepaper and energy costs in 2009 when compared with 2008.

## **RECENT DEVELOPMENTS**

### **Power Supply Agreement**

On February 12, 2010, SFK Pulp concluded a 15-year electrical power supply agreement with Hydro-Québec pursuant to which SFK Pulp will sell to Hydro-Québec Distribution, starting on or about December 1, 2012, 9.5 MW of electrical power co-generated by biomass. With this project, which is subject to obtaining all required approvals, the Saint-Félicien Mill will be increasing its green energy production capacity from 33 to 42.5 megawatts, or nearly 30%. In order to fulfill its obligations under this contract, the Saint-Félicien Mill will be adding a third turbo generator group to its existing co-generation plant.

### **Green Transformation Program**

On October 9, 2009, the Canadian federal government announced the allocation of credits from the Pulp and Paper Green Transformation Program (the "Program", which was originally announced on June 17, 2009). The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. Credits may be used until the Program end date of March 31, 2012. SFK Pulp was allocated a \$20.9 million credit from this Program, and will be submitting the turbo generator project of its Saint-Félicien Mill for Program approval.

### **Conversion to a corporate structure**

SFK Pulp has initiated and intends to complete its conversion to a corporation before the end of the second quarter of 2010, subject to approval of SFK Pulp's Unitholders at the next annual and special meeting of SFK Pulp to be held on May 19, 2010. It is contemplated that the conversion will be undertaken pursuant to a statutory plan of arrangement under the *Canada Business Corporations Act* (the "Conversion"). Pursuant to the Conversion, Unitholders will receive one common share of the new corporation, a wholly-owned subsidiary of SFK Pulp, on a one-for-one basis. All members of the Board of Directors and senior officers of SFK Pulp are expected to continue serving as the directors and officers of the new corporation.

SFK Pulp's distributions have been suspended since January 2009. Following conversion into a corporation, the Board of Directors does not intend to pay dividends in the foreseeable future as it will want to maintain flexibility for investment and improve its balance sheet.

## **OUTLOOK**

"Continuously improving economic and pulp market conditions in NBSK, supported by a strong demand from China and declining world pulp inventories, created a firm demand and, therefore, have allowed for significant price increases since the beginning of the third quarter of 2009 and continuing into the first quarter of 2010. Current pricing is equivalent to the pre-crisis levels of the third quarter of 2008.

Unlike NBSK pulp, the RBK pulp price increases are currently being offset by increasing wastepaper costs.

We have successfully implemented a cost reduction program in 2009 which significantly surpassed expected targets. Although part of these savings was a result of lower prices for raw materials, an important portion is due to reduced consumption as well as improved efficiency and productivity that will continue to benefit future results. Management plans to pursue and maintain a strong focus on reducing costs and improving margins and efficiencies. In addition, the wood chip market in Québec appears to be showing signs of downward pressure on prices.

SFK Pulp's Revolving Facility is maturing in October 2010, therefore refinancing activities are currently underway. Management believes the refinancing will provide an opportunity to implement a credit facility that will appropriately respond to the needs of its business.

The outlook for 2010 includes significant projects such as the conversion to a corporation, the refinancing and the beginning of the construction of a third cogeneration facility at the Saint-Félicien Mill, all of which will better position our company for long-term growth," concluded Pierre Gabriel Côté, President and Chief Executive Officer.

## **CONFERENCE CALL**

SFK Pulp will hold a conference call on Thursday, February 25<sup>th</sup>, 2010 at 10:00 a.m. (Eastern Time), to discuss its results. President and Chief Executive Officer, Pierre Gabriel Côté, and Patsie Ducharme, Vice President and Chief Financial Officer, will host the conference call followed by a question-and-answer session to discuss earnings. To participate in the conference call, investment professionals and business media may dial 647-427-7450 (for all Toronto and overseas participants) or 1-888-231-8191, access code 57523220# (for all other North American calls). Participants not able to listen to the live call can access a replay of the archived call by calling 1-800-642-1687, access code 57523220#. The replay will be available until 11:59 PM on Thursday, March 4, 2010.

## **ABOUT SFK PULP**

SFK Pulp (TSX: SFK.UN), a leader in the production and distribution of high-quality virgin and recycled kraft pulp, operates three mills located in Saint-Félicien, Québec, Fairmont, West Virginia, and in Menominee, Michigan. The SFK Pulp workforce totals a little over 500 employees. The company's annual production capacity reaches 745,000 metric tons. The Saint-Félicien mill provides northern bleached softwood kraft pulp (product known as NBSK pulp) to various sectors of the paper industry in Canada, the United States and Europe, for use in the production of specialized products. The Fairmont and Menominee mills manufacture air-dried recycled bleached kraft pulp (product known as RBK pulp) and primarily supply manufacturers of fine uncoated paper, household paper for commercial and industrial uses, and coated paper in the United States.

## **FORWARD-LOOKING STATEMENTS**

Certain statements in this press release and in SFK Pulp's Management's Discussion and Analysis including, but not limited to, expected wood fibre costs, expected collection of receivables, expected capital expenditures, estimated sufficiency of fibre deliveries, expected sufficiency of cash flows to fund operating needs and capital expenditures and to meet contractual obligations, recoverability of capital assets and other statements that are not historical facts, are "forward-looking statements" which reflect the intentions, plans, expectations and beliefs of SFK Pulp's management ("Management") regarding SFK Pulp's future growth, results of operations, performance and business prospects and opportunities. In certain instances, these statements require Management to make assumptions and there is significant risk that these assumptions may not be correct. The words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to SFK Pulp or Management, often identify forward-looking statements. Such forward-looking statements reflect Management's current beliefs and are based on information currently available to Management. Forward-looking statements involve known and unknown risks, uncertainties and other factors outside Management's control. A number of factors could cause actual results of SFK Pulp to differ materially from the results discussed in the forward-looking statements, including, but not limited to: risks associated with pulp prices and sales volume, exchange rate fluctuations, wood fibre or wastepaper supply and costs at the mills, cost and supply of raw materials (including chemicals), competition, dependence upon key customers, increased production capacity in the market, equipment failure, disruptions of production, capital requirements, absence of guarantee of cash distributions and other factors referenced in SFK Pulp's MD&A for the year ended December 31, 2009 and in SFK Pulp's continuous disclosure filings. Although the forward-looking statements contained herein are based upon what Management believes to be reasonable assumptions, Management cannot assure investors that actual results will be consistent with these forward-looking

statements. Certain assumptions underlying the forward-looking statements contained herein and in SFK Pulp's MD&A for the year ended December 31, 2009 include assumptions to the effect that future cash flows will be sufficient to cover capital expenditures, no extraordinary event will require increased capital expenditures, wood fibre, bark and wastepaper deliveries to SFK Pulp will be sufficient to fulfill the mills' requirements, wood fibre, bark and wastepaper costs will not increase materially, pulp prices, pulp demand and exchange rates will not significantly deteriorate, future cash flows will be sufficient to cover operating needs contemplated and contractual obligations, SFK Pulp will generate positive distributable cash, operation costs will not increase materially, and interest expenses and production outputs will remain stable. These forward-looking statements are made as of the date of this press release, and, except as required by applicable securities laws, Management assumes no obligation to update or revise them to reflect new events or circumstances. These statements do not reflect the potential impact of any special items or of any business combination or other transaction that may be announced or that may occur after the date hereof. Readers are cautioned not to place undue reliance on these forward-looking statements.

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**Note to readers:** Complete audited consolidated financial statements and Management's Discussion & Analysis are available on SFK Pulp's website at [www.sfk.ca](http://www.sfk.ca)

Attached: Summary of Results

For further information, please contact:

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## SFK Pulp - Financial Highlights – Fourth quarter and year ended December 31, 2009

(in thousands of Canadian dollars, except per Unit amounts)	Three months ended December 31 (unaudited)		Year ended December 31 (audited)	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Sales</b>	<b>115,729</b>	<b>125,132</b>	<b>389,299</b>	<b>532,033</b>
Cost of sales	99,590	104,309	346,019	429,404
Delivery costs	11,426	9,855	35,910	38,759
Selling and administrative expenses	4,354	4,776	19,259	16,869
<b>EBITDA<sup>(1)</sup></b>	<b>359</b>	<b>6,192</b>	<b>(11,889)</b>	<b>47,001</b>
Amortization	10,089	10,300	40,695	39,585
<b>Operating (loss) profit</b>	<b>(9,730)</b>	<b>(4,108)</b>	<b>(52,584)</b>	<b>7,416</b>
Financial charges	4,767	4,243	17,804	15,114
(Loss) gain on derivative instruments	(168)	149	(1,190)	1,351
(Loss) gain on disposal of capital assets	(105)	14	(313)	(4)
(Loss) gain on foreign currency translation	(985)	8,537	(8,279)	12,026
Recovery of income taxes <sup>(2)</sup>	(11)	(3,615)	(1,001)	(11,445)
<b>Net (loss) earnings</b>	<b>(15,744)</b>	<b>3,964</b>	<b>(79,169)</b>	<b>17,120</b>
<b>Net (loss) earnings per Unit Basic</b>	<b>(0.18)</b>	<b>0.04</b>	<b>(0.88)</b>	<b>0.19</b>

(in thousands of Canadian dollars, except per Unit amounts)	Three months ended December 31 (unaudited)		Year ended December 31 (unaudited)	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Cash flows from (used in) operating activities</b>	3,453	225	(2,205)	14,166
Less:				
Capital expenditures - cash	817	4,322	5,433	17,497
<b>Standardized distributable cash</b>	2,636	(4,097)	(7,638)	(3,331)
Less adjustments to standardized distributable cash:				
Changes in non-cash working capital items	7,965	(9,036)	28,211	(30,281)
Capital expenditures accruals	189	(399)	(1,079)	(809)
Amortization of deferred financing fees	287	287	1,550	1,058
Deferred financing fees	-	-	1,909	-
Employee future benefits	(326)	58	535	142
<b>Adjusted distributable cash<sup>(3)</sup></b>	<b>(5,479)</b>	<b>5,263</b>	<b>(38,764)</b>	<b>26,559</b>
Distributions declared	-	2,714	-	10,857
<b>(Shortfall) excess over adjusted distributable cash</b>	<b>(5,479)</b>	<b>2,549</b>	<b>(38,764)</b>	<b>15,702</b>
Reserve for distributions at the beginning of the period <sup>(4)</sup>	(3,636)	27,100	29,649	13,947
<b>Reserve for distributions at the end of the period<sup>(4)</sup></b>	<b>(9,115)</b>	<b>29,649</b>	<b>(9,115)</b>	<b>29,649</b>
<b>Per Unit amount</b>				
- Standardized distributable cash	0.03	(0.05)	(0.08)	(0.04)
- Adjusted distributable cash	(0.06)	0.06	(0.43)	0.29
- Distributions declared	-	0.03	-	0.12

(in thousands of Canadian dollars except per Unit amounts)	<b>Three months ended December 31, 2009</b> (unaudited)		<b>Year ended December 31, 2009</b> (audited)	
	<b>Total</b>	<b>Per Unit</b>	<b>Total</b>	<b>Per Unit</b>
Total distributions declared	-	-	-	-

(in thousands of Canadian dollars except per Unit amounts)	<b>Three months ended December 31, 2008</b> (unaudited)		<b>Year ended December 31, 2008</b> (audited)	
	<b>Total</b>	<b>Per Unit</b>	<b>Total</b>	<b>Per Unit</b>
Total distributions declared	\$2,714	\$0.03	\$10,857	\$0.12

- (1) Earnings before amortization, financial charges and income taxes, and effective with this release, also before other non-operating income and expense such as gain or loss on derivative instruments, disposal of capital assets and foreign currency translation ("EBITDA") is not a recognized measure under Canadian GAAP and is unaudited. Management believes that this measure is useful supplemental information as it provides investors with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. Investors should be cautioned however that this information should not be confused with or used as an alternative for net earnings determined in accordance with GAAP as an indicator of SFK Pulp's performance or cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. SFK Pulp's method for calculating this information may differ from that used by other issuers and, accordingly, this information may not be comparable to measures used by other issuers. EBITDA shown herein represents earnings before amortization, financial charges, other non-operating income and expense as well as income taxes in the Financial Statements.
- (2) In 2007, a non-cash income tax expense of \$12.6 million (or \$0.14 per Unit) was recorded following the adoption of the federal legislation to implement a tax on distributions paid by publicly traded income trusts in Canada. In 2008, this non-cash income tax expense of \$12.6 million (or \$0.09 per diluted Unit) was reversed as a result of changes in the estimated temporary differences expected to reverse in or after 2011.
- (3) "Adjusted distributable cash" is standardized distributable cash adjusted by Management for changes in non-cash working capital items, capital expenditures accruals, amortization of deferred financing fees and employee future benefits. Adjusted distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts as an indicator of the issuer's ability to generate cash that could be used for distributions to Unitholders and it should not be seen as a measure of cash flows or a substitute for comparable metrics prepared in accordance with GAAP. SFK Pulp's adjusted distributable cash may differ from similar calculations as reported by other similar entities and accordingly may not be comparable to adjusted distributable cash as reported by such entities. Management believes that SFK Pulp's adjusted distributable cash calculated from cash flows from operations is the most appropriate measure to help readers evaluate the ability of SFK Pulp to generate cash that could be used for distributions.
- (4) SFK Pulp's reserve is a financial indicator comprised of working capital and cash, established to protect SFK Pulp's long standing commitment to capital investment, including its major maintenance program, provide for scheduled debt reimbursement and reduce the impact of negative fluctuations in future cash flows.