



Management's Discussion and Analysis

Third quarter ended September 30, 2011

November 2, 2011

According to the requirements of the Canadian Accounting Standards Board ("AcSB"), Fibrek has adopted International Financial Reporting Standards ("IFRS") starting with its first interim financial report relating to its fiscal year beginning on January 1, 2011. As required by IFRS 1, First Time Adoption of International Financial Reporting Standards, IFRS accounting policies have also been applied in the preparation of an opening IFRS statement of financial position as at January 1, 2010. For purpose of comparison, the 2010 financial information has been restated from Canadian generally accepted accounting principles ("GAAP") to IFRS (see "Changes in accounting policies – International Financial Reporting Standards").

This Management's Discussion and Analysis ("MD&A") of Fibrek for the three and nine months ended September 30, 2011 should be read in conjunction with the MD&A and the consolidated financial statements for the year ended December 31, 2010, the MD&A and the unaudited condensed consolidated interim financial report of the previous quarters of 2011 as well as the unaudited condensed consolidated interim financial report for the three and nine months ended September 30, 2011 (the "Financial Report"). Unless indicated otherwise, all dollar amounts are expressed in Canadian dollars and the term "dollars" and the symbols "\$" and "CAN\$" refer to Canadian dollars. The term "US dollars" and the symbol "US\$" refer to United States dollars. This MD&A was approved by the Board of Directors of Fibrek Inc.

Throughout this MD&A, unless otherwise indicated or the context otherwise requires, "Fibrek", the "Company", "we", "us" and "our" refer to any one of Fibrek Inc., SFK Pulp Fund (the "Fund"), SFK Pulp Trust, Fibrek General Partnership, Fibrek Holding Inc., SFK Pulp Finco Inc., Fibrek Recycling U.S. Inc. or its subsidiaries or any two of them or more collectively. Throughout this MD&A, "tonnes" are metric tonnes.

FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws. These statements include, but are not limited to, statements about completion of the co-generation project on budget or on schedule, expected collection of accounts receivable, expected capital expenditures, estimated sufficiency of wood fibre deliveries, expected sufficiency of cash flows to fund operating needs and capital expenditures and to meet contractual obligations, recoverability of capital assets and similar statements concerning Fibrek's future outlook, business strategy, plans, expectations, results or actions, or the assumptions underlying any of the foregoing. Forward-looking statements can generally be identified by words such as "may", "should", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", "outlook" and similar expressions. These statements are based on information currently available to Fibrek's management ("Management") and on the current assumptions, intentions, plans, expectations and estimates of Management regarding Fibrek's future growth, results of operations, performance, business prospects and opportunities and ability to attract and retain customers as well as the economic environment in which it operates. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors which could cause actual results of Fibrek to differ materially from the conclusion, forecast or projection stated in such forward-looking statements. These risks, uncertainties and other factors include,

but are not limited to: general economic conditions, pulp prices and sales volume, exchange rate fluctuations, cost and supply of wood fibre, wastepaper and other raw materials, pension contributions, competitive markets, dependence upon key customers, increased production capacity, equipment failure, disruptions of production, capital requirements and other factors referenced herein under “Risk Factors” and in Fibrek’s continuous disclosure filings which are available on SEDAR at www.sedar.com. Readers should not place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and, except as required by applicable securities laws, Fibrek assumes no obligation to update or revise them to reflect new events or circumstances.

NON-IFRS MEASURES

References to “**EBITDA**” are to earnings before depreciation, financial expenses and income taxes and 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 IFRS and is unaudited. Management believes that this measure is useful supplemental information as it provides investors with an indication of cash generated 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 IFRS as an indicator of Fibrek’s performance or cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. Fibrek’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 in this MD&A represents earnings before depreciation, financial expenses, other non-operating income and expense as well as income taxes in the Financial Report.

THIRD QUARTER HIGHLIGHTS

COMPARED TO THE THIRD QUARTER OF 2010

- Net earnings favorably impacted by a gain on foreign exchange of \$5.4 million.
- Good demand for NBSK and RBK pulp
- North American NBSK pulp prices in US\$ were flat
- U.S. dollar was 6% weaker compared to the Canadian dollar
- Financial expenses reduced by \$2 million, or \$0.02/share, reflecting the benefits of debt reduction initiatives
- Balance sheet continues to strengthen

RECENT DEVELOPMENTS

- The cogeneration project at the Saint-Félicien mill is on budget and on schedule for its target start-up date of December 1, 2012. To date, \$9.0 million grant have been received and the Company has \$10.1 million of capital expenditure.
- The Company has made significant progress in the development of a new grade of RBK pulp for use in food packaging and should begin selling into select segments of this market in the fourth quarter of 2011.

THIRD QUARTER 2011 - OVERVIEW

(unaudited)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Sales volume (tonnes)				
-NBSK pulp	83,069	73,920	262,988	254,359
-RBK pulp	88,361	88,905	272,056	288,657
TOTAL	171,430	162,825	535,044	543,016
(in thousands of Canadian dollars except per share figures)				
Sales				
-NBSK pulp	67,084	64,903	213,683	212,773
-RBK pulp	71,183	67,274	205,007	212,312
TOTAL	138,267	132,177	418,690	425,085
EBITDA¹				
-NBSK pulp	13,471	19,345	43,822	48,289
-RBK pulp	(1,097)	731	919	9,537
TOTAL	12,374	20,076	44,741	57,826
Profit (loss) from operations				
-NBSK pulp	6,216	12,413	21,241	26,779
-RBK pulp	(2,426)	(765)	(3,142)	5,114
TOTAL	3,790	11,648	18,099	31,893
Earnings before income taxes	6,773	5,350	15,880	14,025
Net earnings	6,773	5,355	15,866	14,030
Net earnings per share²				
-NBSK pulp	0.05	0.04	0.12	0.14
-NBSK pulp	0.05	0.04	0.12	0.10
Cash flows from operating activities	13,848	20,230	32,607	56,622
Capital expenditures	5,019	3,946	10,228	8,773

	As at	
	Sept. 30, 2011	December 31, 2010
Total long-term financial liabilities³	103,000	134,283
Total assets	553,624	555,900

1) Non-IFRS Measure. See "Non-IFRS Measures".

2) On July 16, 2010, the Company issued an aggregate of 39,602,848 Common Shares pursuant to the Rights Offering, (see "Liquidity and Capital Resources - Financing Activities - Rights Offering") increasing outstanding shares from 90,472,708 to 130,075,556 shares.

3) Includes current portion of the long-term debt.

OUR COMPANY

Fibrex Inc. is the successor of the Fund following the completion of the conversion of the Fund from an income trust structure to a corporate structure by way of the Arrangement. The Arrangement involved the transfer of units held by unitholders of the Fund to Fibrek Inc., on the basis of one Common Share for each unit so transferred. As a result of the Arrangement, the unitholders of the Fund became the shareholders of Fibrek.

Fibrex Inc. was incorporated on March 24, 2010 under the *Canada Business Corporations Act* and did not carry on any active business prior to the Arrangement, other than executing the arrangement agreement pursuant to which the Arrangement was implemented.

NBSK PULP OPERATIONS

Fibrek owns the northern bleached softwood kraft ("NBSK") pulp mill (the "Saint-Félicien Mill") located in Saint-Félicien, Québec, approximately 450 kilometres north of Montréal in the Lac-Saint-Jean region. The Saint-Félicien Mill manufactures high-quality NBSK pulp.

The Saint-Félicien Mill commenced production in 1978 with an initial annual capacity of approximately 230,000 tonnes. Improvements to the Saint-Félicien Mill over the years have allowed for an increase in its capacity to approximately 375,000 tonnes, contributed to maintaining the Saint-Félicien Mill's competitive cost position and improved the quality of its product.

The Saint-Félicien Mill supplies NBSK pulp to various sectors of the paper industry, for use in products such as lightweight coated papers, groundwood specialties, tissue grades, supercalendered grades, high-quality woodfree coated grades and uncoated papers.

RBK PULP OPERATIONS

Fibrek also owns the recycled bleached kraft ("RBK") pulp mill located in Fairmont, West Virginia (the "Fairmont Mill") and the RBK pulp mill located in Menominee, Michigan (the "Menominee Mill", and together with the Fairmont Mill, the "Fairmont and Menominee Mills"). Both mills manufacture high-quality air-dried RBK pulp for sale on the open market ("market pulp") and, to Management's knowledge, are the only mills of their kind in North America and represent two of only three air-dried RBK market pulp mills operating in the world. RBK pulp is produced entirely from wastepaper mainly sorted office paper ("SOP").

The Fairmont and Menominee Mills both commenced operations in the mid 90s. Management believes that the mills have built a reputation as a market leader for one of the finest quality RBK market pulp in the world. With a total combined production capacity of approximately 385,000 tonnes of RBK market pulp per year, the Fairmont and Menominee Mills hold a share position of 48% in the approximately 800,000 tonnes annual North American RBK market pulp segment.

The Fairmont and Menominee Mills primarily supply RBK pulp to manufacturers of uncoated freesheet, commercial and away-from-home tissue and coated papers.

The Saint-Félicien Mill, the Fairmont Mill and the Menominee Mill are hereinafter collectively referred to as the "Mills".

THE PULP MARKET

NBSK PULP

Global NBSK markets weakened throughout the third quarter of 2011. According to Resource Information Systems Inc. (RISI), North American NBSK prices were US\$1,035 per tonne at the end of the second quarter, and decreased each month through the third quarter 2011, ending at US\$970 per tonne in September 2011. The European price stood at US\$1,030 per tonne in June 2011 and decreased to US\$950 per tonne at the end of the third quarter.

Global pulp demand softened during the third quarter of 2011, as a result of weak western economies, a significant cutback in Chinese demand, inventory draw downs, negative customer reactions to high pulp prices, and, lately, a strengthening of the US dollar. In addition, north american and european paper machine market downtimes started being announced in June 2011 and kept occurring through the third quarter. In the latter part of the third quarter of 2011, permanent paper mill shutdowns were also announced for year-end in Europe. Global market pulp inventories reached 38 days at the end of September 2011, up seven days since the beginning of the year and four days since the end of the second quarter. Softwood inventories ended September 2011 at 32 days, up four days since the end of the second quarter 2011.

Quarterly Average Market Pulp Price NBSK Pulp delivered in Northern Europe and North America

US\$ / tonne

	2011		2010		2009	
	Northern Europe	North America	Northern Europe	North America	Northern Europe	North America
1 st Quarter	960	970	860	880	585	673
2 nd Quarter	1,017	1,025	957	993	602	645
July	1,010	1,020	980	1,020	660	700
August	980	990	980	990	690	730
September	950	970	980	990	730	770
3 rd Quarter	980	993	980	1,000	693	733
4 th Quarter	n/a	n/a	957	967	787	820
Year-to-Date	986	996	932	958	627	684

Source: RISI

RBK PULP

RBK pulp shipments in the third quarter of 2011 fell approximately 12% compared to the second quarter of 2011, primarily due to lower export shipments. During the third quarter, ongoing SOP cost increases drove RBK pulp prices higher while virgin hardwood pulp prices were decreasing. This eliminated fibre substitution sales for RBK pulp in export markets where there are no recycled content requirements. Domestic shipments dropped only 2% compared to the second quarter of 2011, which can be attributed to normal summer slowdown.

Market RBK pulp prices continued rising throughout the third quarter, with September prices averaging almost US\$60 per tonne higher than at the end of the second quarter of 2011. September 2011 average RBK pulp prices were also about US\$130-140 per tonne higher than 2010 average prices.

Wastepaper generation began increasing in mid-summer, which led to reductions in SOP prices in the latter half of the third quarter.

SENSITIVITY

Assuming full capacity and the US exchange rate as at September 30, 2011, a change of US\$10 per tonne in the price of NBSK pulp has, on an annualized basis, an impact of approximately CAN\$3.9 million or \$0.03 per share on Fibrek's net earnings (based on 130,075,556 Common Shares outstanding). The same variation analysis performed on RBK pulp shows an annual impact of approximately CAN\$4.0 million or \$0.03 per share (based on 130,075,556 Common Shares outstanding) on Fibrek's net earnings.

EXCHANGE RATES

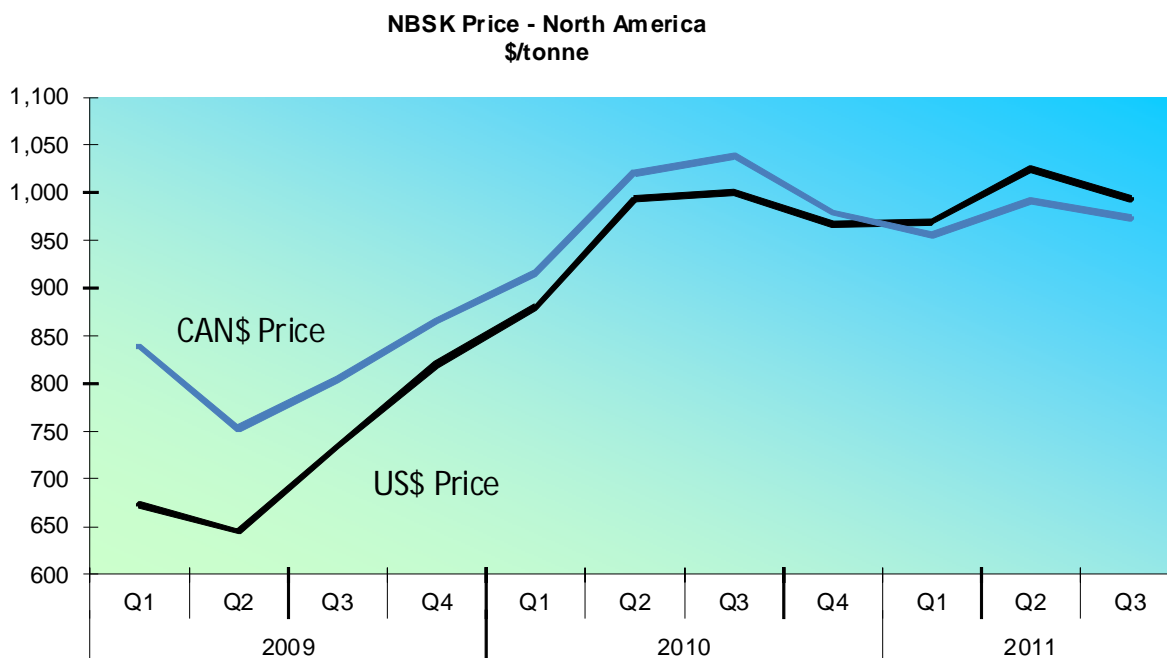
Exchange rate fluctuations between the Canadian dollar and its US counterpart have a significant impact on NBSK pulp results; these fluctuations also impact sales made in Canada which are dependent on the price of pulp in North America.

For the third quarter of 2011, the Canadian dollar was, on average, 6% stronger than in the corresponding quarter of 2010 (0.9802 CAN\$/US\$ in 2011 compared with 1.0391 CAN\$/US\$ in 2010). The strong Canadian dollar amplified the impact of the lower NBSK pulp sales price per tonne (expressed in Canadian dollars) when compared with 2010.

EXCHANGE RATES

	2011		2010		2009	
	CAN\$ / US\$	US\$ / CAN\$	CAN\$ / US\$	US\$ / CAN\$	CAN\$ / US\$	US\$ / CAN\$
1 st Quarter	0.9860	1.0142	1.0409	0.9607	1.2453	0.8030
2 nd Quarter	0.9677	1.0334	1.0276	0.9731	1.1671	0.8568
July	0.9553	1.0468	1.0427	0.9590	1.1222	0.8911
August	0.9828	1.0175	1.0414	0.9602	1.0882	0.9189
September	1.0026	0.9974	1.0331	0.9680	1.0818	0.9244
3 rd Quarter	0.9802	1.0202	1.0391	0.9624	1.0974	0.9112
4 th Quarter	n/a	n/a	1.0128	0.9873	1.0563	0.9467
Year-to-date	0.9780	1.0225	1.0359	0.9654	1.1699	0.8547

As a result of the exchange rate, the US\$7 per tonne lower sales price for NBSK pulp (delivered in North America) translated into a reduction of the average sales price by CAN\$65 per tonne, from CAN\$1,039 per tonne in the third quarter of 2010 to CAN\$974 per tonne in the corresponding period of 2011.



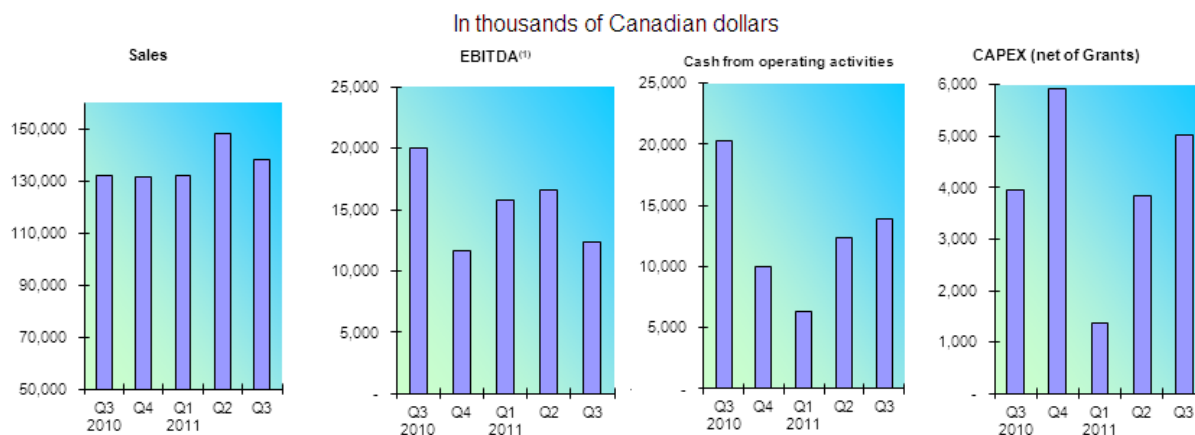
In accordance with its policy, Fibrek can use financial instruments to cover itself against exchange rate fluctuations for specific minimal spot pulp sales (see "Financial position – Financial Instruments and Other Instruments"). Moreover, the Fairmont and Menominee Mills in the United States reduce Fibrek's exposure to the CAN\$ / US\$ exchange rate volatility. Fibrek did not use such financial instruments over the third quarter.

Assuming full capacity and current pulp prices, a change of \$0.01 in the value of the CAN\$ relative to the US\$ has, on an annualized basis, an impact of approximately CAN\$2.6 million or \$0.02 per share (based on 130,075,556 Common Shares outstanding) on Fibrek's net earnings.

COMPARATIVE OVERVIEW OF FINANCIAL RESULTS

CONSOLIDATED RESULTS OF OPERATIONS

(in thousands of Canadian dollars) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Sales	138,267	132,177	418,690	425,085
Cost of products sold	111,892	99,692	330,209	326,872
Delivery costs	10,320	9,695	32,536	31,391
Selling and administrative expenses	3,681	2,714	11,204	8,996
EBITDA¹	12,374	20,076	44,741	57,826
Depreciation	8,584	8,428	26,642	25,933
Profit from operations	3,790	11,648	18,099	31,893
Financial expenses	2,361	4,344	8,860	13,687
Financial income	(11)	(15)	(180)	(24)
Loss (gain) on financial instruments	8	(94)	(3,549)	3,231
Loss (gain) on disposal of property, plant and equipment	9	8	86	(5)
(Gain) loss on foreign currency translation	(5,350)	2,055	(2,998)	979
Earnings before income taxes	6,773	5,350	15,880	14,025
(Recovery) provision for income taxes	-	(5)	14	(5)
Net earnings	6,773	5,355	15,866	14,030



Note (1) Non-IFRS measure. See "Non-IFRS Measures".

OVERVIEW

THIRD QUARTER 2011 COMPARED WITH THIRD QUARTER 2010

In the third quarter of 2011, consolidated **sales** reached \$138.3 million, an increase of \$6.1 million when compared with sales of \$132.2 million in the third quarter of 2010. This increase is mainly attributable to higher RBK pulp prices and a favourable sales mix for \$7.5 million and a higher sales volume for \$6.9 million, which were partially offset by an unfavourable exchange rate for \$8.3 million.

Cost of products sold totalled \$111.9 million in the third quarter of 2011, an increase of \$12.2 million when compared with the corresponding period of 2010. This increase is primarily due to higher cost per tonne for \$10.8 million, mainly due to wastepaper prices and a higher sales volume for \$5.6 million, which were partially offset by the impact of the exchange rate on our US operating costs for \$4.2 million.

Delivery costs of \$60 per tonne in the third quarter of 2011 were at the same level as in the corresponding period of 2010. Freight rate increases primarily due to fuel surcharge were offset by the impact of a stronger Canadian dollar when compared with the third quarter of 2010.

Selling and administrative expenses in the third quarter of 2011 totalled \$3.7 million, compared with \$2.7 million in the corresponding period of 2010. This increase is primarily due to additional external resources related to the execution of the Company's strategic plan and difference in timing of certain expenses.

As a result, **EBITDA** for the third quarter of 2011 were \$12.4 million (or 8.9% of sales), compared to \$20.1 million (or 15.2% of sales) for the corresponding period of 2010.

Depreciation amounted to \$8.6 million in the third quarter of 2011, compared with \$8.4 million in the corresponding quarter of 2010.

Financial expenses decreased from \$4.3 million in the third quarter of 2010 to \$2.4 million in the third quarter of 2011. This \$1.9 million reduction results mainly from a lower debt level due to the repayment of the Debentures, thereby reducing interest for the third quarter of 2011. In the third quarter of 2010, the Company wrote-off deferred financing fees following the repayment of the Old Credit Facilities. See "Liquidity and Capital Resources - Financing Activities".

Gain on foreign currency translation in the third quarter of 2011 totalled \$5.4 million, compared to a loss on foreign currency translation of \$2.1 million in the corresponding quarter of 2010. This variation of the foreign exchange loss to a gain is mainly due to the translation of accounts receivable as well as cash and cash equivalents denominated in US dollars.

Net earnings of \$6.8 million were recorded in the third quarter of 2011, compared with net earnings of \$5.4 million in the corresponding period of 2010. **Net earnings per share** amounted to \$0.05 (basic and diluted) in the third quarter of 2011, compared with net earnings per share of \$0.04 (basic and diluted) in the corresponding period of 2010. In the third quarter of 2011, an **average** of 130,075,556 **shares** were outstanding compared with 123,618,570 in the third quarter of 2010.

NINE MONTHS ENDED SEPTEMBER 30, 2011 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2010

For the first nine months of 2011, consolidated **sales** reached \$418.7 million, a reduction of \$6.4 million when compared with sales of \$425.1 million for the corresponding period of 2010. This decrease is mainly attributable to an unfavourable exchange rate for \$24.8 million as well as a lower sales volume for \$6.2 million, which were partially offset by higher pulp prices and a favourable sales mix for \$24.6 million.

Cost of products sold totalled \$330.2 million for the nine-month period ended September 30, 2011, an increase of \$3.3 million when compared with the corresponding period of 2010. This increase is primarily due to higher cost per tonne for \$19.9 million, mainly due to wastepaper prices, which were partially offset by the impact of the exchange rate on our US operating costs for \$11.7 million and a lower sales volume for \$4.9 million.

Delivery costs increased to \$61 per tonne for the nine-month period ended September 30, 2011, from \$58 in the corresponding period of 2010. The increase of \$3 per tonne results mainly from freight rate increases primarily due to fuel surcharge, partly offset by the impact of a stronger Canadian dollar when compared with the same period last year.

Selling and administrative expenses totalled \$11.2 million for the nine-month period ended September 30, 2011, compared to \$9.0 million in the corresponding period of 2010. This increase is primarily due to additional external resources related to the execution of the Company's strategic plan and difference in timing of certain expenses.

As a result, **EBITDA** for the nine-month period ended September 30, 2011 reached \$44.7 million (or 10.7% of sales), compared to EBITDA of \$57.8 million (or 13.6% of sales) for the corresponding period of 2010.

Depreciation amounted to \$26.6 million during the nine-month period ended September 30, 2011, compared with \$25.9 million in the corresponding period of 2010.

Financial expenses decreased from \$13.7 million for the nine-month period ended September 30, 2010 to \$8.9 million in the first nine months of 2011. This \$4.8 million reduction results mainly from a lower debt level due to the repayment of the Old Revolving Facility, the reduction of the long-term debt as a result of the Rights Offering as well as lower interest rates following the Refinancing Transactions. Also, in the first half of 2011, the Company redeemed the Debentures thereby reducing interest for the second and third quarters of 2011. In the third quarter of 2010, the Company wrote-off deferred financing fees following the repayment of the Old Credit Facilities. See "Liquidity and Capital Resources - Financing Activities".

In the first nine months of 2011, **gain on financial instruments** amounted to \$3.5 million, compared with a loss on financial instruments of \$3.2 million in the corresponding period in the previous year. In the first half of 2011, Fibrek redeemed its Debentures, resulting in a gain of \$2.8 million mainly related to the write-off of the accretion of the equity portion of the Debentures (see "Liquidity and Capital Resources - Financing Activities - Debentures"). Also, the Company recorded a gain of \$0.8 million following the sale of 236,226 shares of AbitibiBowater Inc. in the first quarter of 2011. Such shares were allocated to the Company in partial settlement of the claim filed pursuant to the procedures undertaken by AbitibiBowater Inc. under the Companies' Creditors Arrangement Act, resulting in a gain on settlement of a claim totalling \$5.5 million in 2010. A minimal amount of common shares were reserved by AbitibiBowater Inc. for the benefit of holders of disputed claims and could be distributed subsequently to unsecured creditors in accordance with the terms of the plan of reorganization.

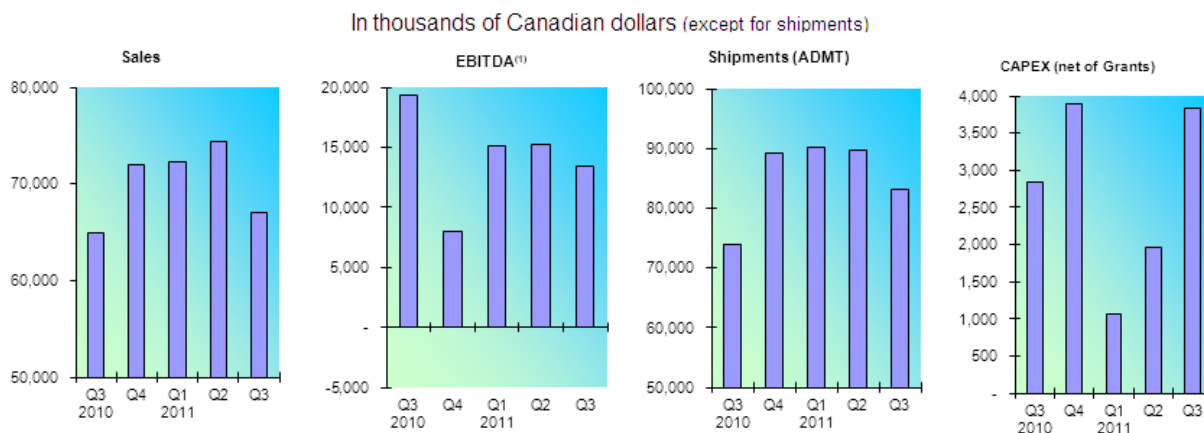
In the first half of 2010, Fibrek recorded a loss on financial instruments of \$3.3 million related to the mark-to-market of the derivative portion of the Debentures.

Gain on foreign currency translation in the nine-month period ended September 30, 2011 totalled \$3.0 million, compared to a loss on foreign currency translation of \$1.0 million in the corresponding period of 2010. This foreign exchange gain is mainly due to the translation of accounts receivable as well as cash and cash equivalents denominated in US dollars.

Net earnings of \$15.9 million were recorded in the nine-month period ended September 30, 2011, compared with net earnings of \$14.0 million in the corresponding period of 2010. **Net earnings per share** amounted to \$0.12 (basic and diluted) in the nine-month period ended September 30, 2011, compared with net earnings per share of \$0.14 (\$0.10 diluted) in the corresponding period of 2010. In the nine-month period ended September 30, 2011, an **average** of 130,075,556 **shares** were outstanding compared with 101,642,742 in the corresponding period of 2010.

RESULTS OF THE NBSK SEGMENT

(in thousands of Canadian dollars) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Sales	67,084	64,903	213,683	212,773
Cost of products sold	46,530	39,511	147,772	144,402
Delivery costs	5,289	4,961	16,726	16,190
Selling and administrative expenses	1,794	1,086	5,363	3,892
EBITDA¹	13,471	19,345	43,822	48,289
Depreciation	7,255	6,932	22,581	21,510
Profit from operations	6,216	12,413	21,241	26,779



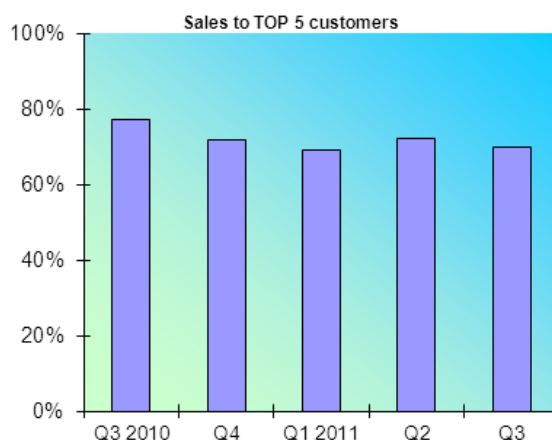
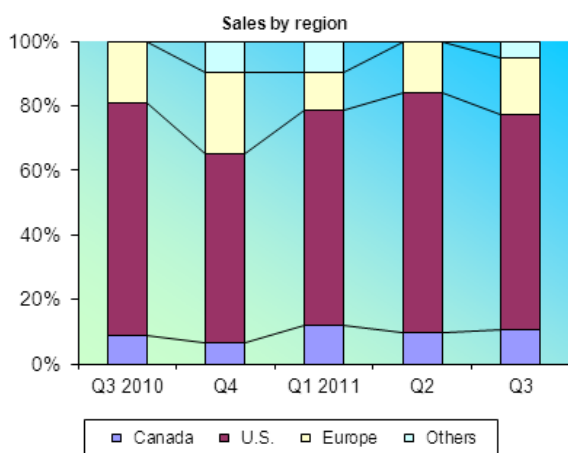
Note (1) Non-IFRS measure. See "Non-IFRS Measures".

THIRD QUARTER 2011 COMPARED WITH THIRD QUARTER 2010

Sales for the third quarter ended September 30, 2011 totalled \$67.1 million, compared with \$64.9 million for the corresponding period of 2010, representing an increase of \$2.2 million. This increase is attributable to a higher sales volume for \$7.4 million, which was partly offset by a stronger Canadian dollar compared to the US currency for \$4.0 million and lower pulp prices for \$1.2 million.

NBSK **market pulp price** (for pulp delivered in North America) was lower by US\$7 per tonne or 1% on average during the third quarter of 2011 when compared with the corresponding quarter of 2010. The reduction in NBSK market pulp prices, coupled with a stronger Canadian dollar when compared with the third quarter of 2010, resulted in an average sales price of CAN\$974 per tonne, CAN\$65 per tonne below the average sales price recorded in the corresponding quarter of 2010.

The NBSK pulp **sales volume** totalled 83,069 tonnes in the third quarter of 2011, an increase of 9,149 tonnes when compared with 73,920 tonnes for the corresponding period of 2010. The increase was mainly attributable to a return to more normal levels of activity. In 2010, the re-start of idled mills resulted in lower-than-trend shipments.



During the third quarter of 2011, 11% of our sales of NBSK pulp were realized in Canada, 67% in the United States, 17% in Europe and 5% in other regions. Over the same period last year, these percentages were 9%, 72%, 19% and 0%, respectively.

Sales made to the **top five NBSK pulp customers** in the third quarter of 2011 totalled \$46.9 million, or 70% of total NBSK pulp sales. Last year, sales made to the top five NBSK pulp customers amounted to \$50.0 million, or 77% of total NBSK pulp sales.

Production at the Saint-Félicien Mill during the third quarter ended September 30, 2011 totalled 95,945 tonnes, compared with 92,492 tonnes in the third quarter of 2010. The increase in production volume was due to better productivity related to the machine press installed in November 2010.

On a per tonne basis, **cost of sales** increased by 5% in the third quarter of 2011, compared with the same period of 2010. This increase is mainly attributable to higher input costs, mainly fibre and chemicals, which were partly offset by lower energy cost.

Delivery costs decreased to \$64 per tonne in the third quarter of 2011, from \$67 in the corresponding period of 2010. The reduction of \$3 per tonne results mainly from the impact of a stronger Canadian dollar when compared with the third quarter of 2010, partly offset by freight rate increases primarily due to fuel surcharge.

NINE MONTHS ENDED SEPTEMBER 30, 2011 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2010

Sales for the nine-month period ended September 30, 2011 totalled \$213.7 million, compared with \$212.8 million for the corresponding period of 2010, representing a \$0.9 million increase. This increase is mainly attributable to higher sales volume for \$7.0 million and to higher net realized pulp prices for \$6.6 million, partly offset by a stronger Canadian dollar compared to the US currency for \$12.7 million.

Average NBSK **market pulp prices** (for pulp delivered in North America) for the nine-month period ended September 30, 2011 was US\$996 per tonne, an increase of US\$38 per tonne or 4%. This increase in average market pulp prices, partly offset by a stronger Canadian dollar, when compared to the corresponding period of 2010, resulted in a sales price of CAN\$974 per tonne, CAN\$18 below the sales price of CAN\$992 per tonne in the corresponding period of 2010.

During the nine-month period ended September 30, 2011, the Saint-Félicien Mill's **sales volume** was 262,988 tonnes of NBSK pulp, an increase of 8,629 tonnes when compared to the corresponding period of 2010 (254,359 tonnes). The increase was mainly attributable to the increase in the third quarter of 2011, compared to the third quarter of 2010 (explanation above).

During the nine-month period ended September 30, 2011, 11% of the Company's sales of NBSK pulp were realized in Canada, 69% in the United States, 15% in Europe and 5% in other regions. Over the same period last year, these percentages were 16%, 64%, 20% and 0%, respectively.

Sales to the **top five NBSK pulp customers** for the nine-month period ended September 30, 2011 totalled \$146.6 million, or 69% of total NBSK pulp sales. Last year, sales made to the top five NBSK pulp customers amounted to \$140.3 million, or 66% of total NBSK pulp sales.

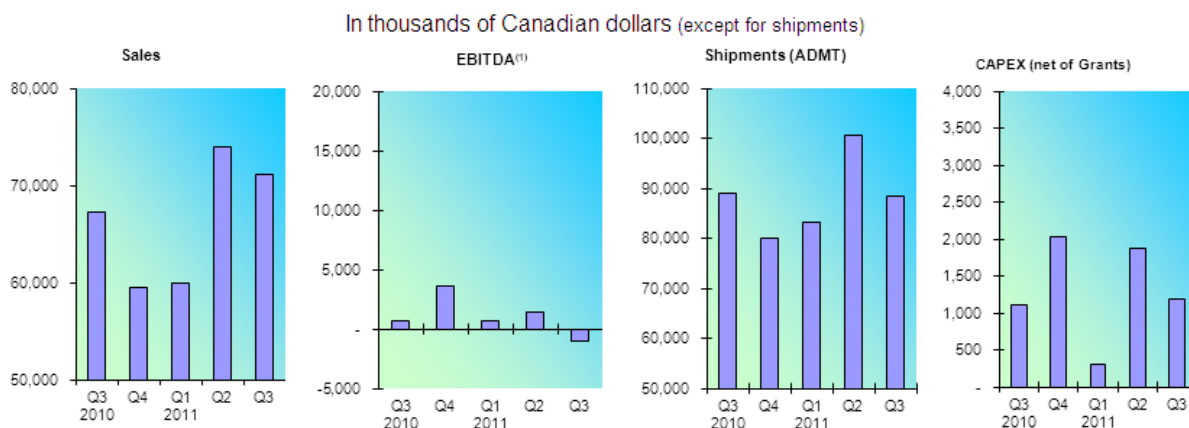
Production at the Saint-Félicien Mill during the first nine months of 2011 totalled 279,013 tonnes, compared with 266,643 tonnes in the corresponding period of 2010. The increase in production volume was mainly due to better productivity following the machine press installation in November 2010.

On a per tonne basis, **cost of sales** decreased by 1% in the nine-month period ended September 30, 2011, compared with the same period of 2010. This reduction is mainly attributable to lower fibre costs as well as lower fixed costs per tonne resulting from better productivity, which were partly offset by higher chemical costs.

Delivery costs of \$64 per tonne in the first nine months of 2011 were at the same level as in the corresponding period of 2010. Freight rate increases primarily due to fuel surcharge were partly offset by the impact of a stronger Canadian dollar.

RESULTS OF THE RBK PULP SEGMENT

(in thousands of Canadian dollars) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Sales	71,183	67,274	205,007	212,312
Cost of products sold	65,362	60,181	182,437	182,470
Delivery costs	5,031	4,734	15,810	15,201
Selling and administrative expenses	1,887	1,628	5,841	5,104
EBITDA¹	(1,097)	731	919	9,537
Depreciation	1,329	1,496	4,061	4,423
(Loss) profit from operations	(2,426)	(765)	(3,142)	5,114

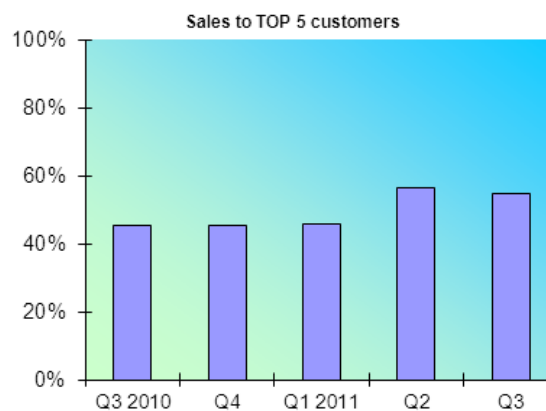
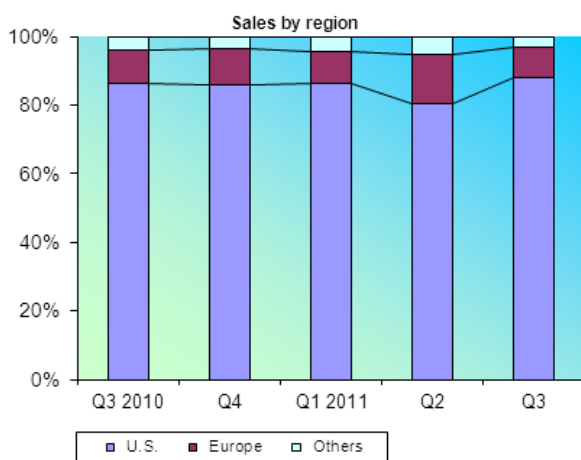


Note (1) Non-IFRS measure. See "Non-IFRS Measures".

THIRD QUARTER 2011 COMPARED WITH THIRD QUARTER 2010

For the third quarter ended September 30, 2011, the RBK pulp segment recorded **sales** of \$71.2 million, compared with \$67.3 million for the corresponding period of 2010. This increase of \$3.9 million is mainly attributable to higher net realized pulp prices for \$8.6 million, which were partly offset by an unfavourable exchange rate for \$4.3 million and a lower sales volume for \$0.4 million.

The RBK pulp **sales volume** reached 88,361 tonnes, compared with 88,905 tonnes for the corresponding period of 2010. RBK pulp **average sales prices** increased by 13% compared with the corresponding period in 2010, mainly driven by higher wastepaper prices. However, as a result of a stronger Canadian dollar, sales per tonne increased only by 6%.



During the third quarter of 2011, 88% of RBK pulp sales were realized in the United States, 9% in Europe and 3% in other regions. Over the same period last year, these percentages were 86% in the United States, 10% in Europe and 4% in other regions.

Sales to the **top five RBK pulp customers** totalled \$38.8 million or 54% of the sales for the RBK pulp segment during the third quarter of 2011. Last year, sales made to the top five RBK pulp customers amounted to \$30.5 million, or 45% of total RBK pulp sales.

Production at the Fairmont and Menominee Mills totalled 85,703 tonnes for the quarter ended September 30, 2011, compared with 90,316 tonnes for the corresponding quarter of 2010. The reduction in production volume was due to less available machine uptime in 2011 mainly related to the extended maintenance shutdown at the Fairmont mill partly offset by better productivity.

On a per tonne basis, **cost of sales** for the third quarter of 2011 increased by 9%, compared with the same period of 2010. This increase is mainly attributable to higher wastepaper prices accounting for 16% of total cost increases, which were partly offset by the impact of the stronger Canadian dollar on the US dollar mills' costs accounting for 7% of total cost increases.

Delivery costs increased to \$57 per tonne in the third quarter of 2011, from \$53 in the corresponding period of 2010. The increase of \$4 per tonne results mainly from freight rate increases primarily due to fuel surcharge, which were partly offset by the impact of a stronger Canadian dollar compared to the US currency.

NINE MONTHS ENDED SEPTEMBER 30, 2011 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2010

For the nine-month period ended September 30, 2011, the RBK pulp segment recorded **sales** of \$205.0 million compared to sales of \$212.3 million in the corresponding period of 2010. This \$7.3 million reduction is attributable to a lower sales volume for \$12.5 million and an unfavourable exchange rate for \$12.1 million, partly offset by higher net realized pulp prices for \$17.3 million.

The RBK pulp **sales volume** reached 272,056 tonnes during the nine-month period ended September 30, 2011, compared with 288,657 tonnes for the corresponding period of 2010. RBK pulp **average sales prices** increased by 9%. The impact of the stronger Canadian dollar offset this increase, leaving the sales per tonne increasing by only 2% compared to the corresponding period of 2010.

During the nine-month period ended September 30, 2011, 84% of RBK pulp sales were realized in the United States, 11% in Europe and 5% in other regions. Over the same period last year, these percentages were 79% in the United States, 10% in Europe and 11% in other regions.

Sales to the **top five RBK pulp customers** totalled \$103.7 million or 51% of the sales for the RBK pulp segment during the nine-month period ended September 30, 2011. Last year, sales made to the top five RBK pulp customers amounted to \$88.0 million or 41% of total RBK sales.

Pulp **production** at the Fairmont and Menominee Mills totalled 276,041 tonnes for the nine-month period ended September 30, 2011 compared to 267,484 tonnes during the corresponding period of 2010.

On a per tonne basis, **cost of sales** for the nine months ended September 30, 2011 increased by 6%, compared with the same period of 2010. This increase is attributable to higher wastepaper prices accounting for 11% of total cost increases, which were partly offset by the impact of the stronger Canadian dollar on the US dollar mills' costs accounting for 6% of total cost increases.

Delivery costs increased to \$58 per tonne in the nine-month period ended September 30, 2011, from \$53 in the corresponding period of 2010. The increase of \$5 per tonne results mainly from freight rate increases primarily due to fuel surcharge, which were partly offset by the impact of a stronger Canadian dollar compared to the US currency.

LIQUIDITY AND CAPITAL RESOURCES

Fibrex generates substantially all of its cash through the sale of NBSK pulp produced at the Saint-Félicien Mill and of RBK pulp produced at the Fairmont and Menominee Mills. The amount of cash generated is therefore dependent upon prevailing market NBSK and RBK pulp prices and sales volume as well as exchange rates. Market NBSK and RBK pulp prices and sales volume vary according to prevailing general economic conditions.

To the extent necessary, Fibrex can also draw on the unused portion of its ABL Credit Facility (as defined under "Financing Activities - Credit Facilities - New Credit Facilities") to fund liquidity needs for inventory and accounts receivable.

The principal liquidity requirements are for working capital (such as wood fibre, wastepaper, pulp inventory, chemicals, natural gas and accounts receivable), capital expenditures and interest payments on short and long-term debt.

OPERATING ACTIVITIES

(in thousands of Canadian dollars) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Cash flows from operating activities before changes in non-cash working capital items	16,167	17,863	46,202	56,834
Changes in non-cash working capital items	(2,319)	2,367	(13,595)	(212)
Cash flows from operating activities	13,848	20,230	32,607	56,622

Cash flows from operating activities for the third quarter of 2011 totalled \$13.8 million, compared with cash flows from operating activities of \$20.2 million for the corresponding quarter of 2010. Cash flows from operating activities for the nine-month period ended September 30, 2011 totalled \$32.6 million, compared with \$56.6 million for the corresponding period of 2010.

INVESTING ACTIVITIES

(in thousands of Canadian dollars) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Other assets	(1)	176	(18)	197
Addition to property, plant and equipment	597	(3,202)	(6,354)	(7,983)
Proceeds from disposal of property, plant and equipment	-	3	10	16
Proceeds from disposal of financial instrument	-	-	6,307	-
Cash flows generated from (used in) investing activities	596	(3,023)	(55)	(7,770)

Cash flows generated from investing activities for the third quarter of 2011 totalled \$0.6 million, compared with cash flows used in investing activities of \$3.0 million in the third quarter of 2010. Cash generated from investing activities in the third quarter of 2011 were attributable to grants received in anticipation of expenses to be incurred in connection to the construction of the third turbogenerator.

Cash flows used in investing activities for the nine-month period ended September 30, 2011 totalled \$0.1 million, compared with \$7.8 million for the corresponding period of 2010. On February 3, 2011, Fibrek sold its 236,226 shares of AbitibiBowater Inc., which were allocated to the Company in partial settlement of the claim filed pursuant to the procedures undertaken by AbitibiBowater Inc. under the Companies' Creditors Arrangement Act, resulting in net proceeds of \$6.3 million. A minimal amount of common shares were reserved by AbitibiBowater Inc. for the benefit of holders of disputed claims and could be distributed subsequently to unsecured creditors in accordance with the terms of the plan of reorganization.

CAPITAL EXPENDITURES

On an accrual basis, capital expenditures for the Mills totalled \$5.0 million for the third quarter ended September 30, 2011, compared with \$3.9 million for the corresponding period of 2010. Capital expenditures at the Saint-Félicien Mill totalled \$3.8 million in the third quarter ended September 30, 2011, compared with \$2.8 million for the corresponding period of 2010. The investments for the Saint-Félicien Mill consisted mainly of the third turbogenerator and asset maintenance expenditures.

In connection with the 9.5MW electricity sales contract concluded with Hydro-Québec, the Saint-Félicien Mill will be adding a third turbogenerator group to its existing co-generation plant. Detailed engineering is progressing according to plan. Orders for most major equipments have been placed. Tie-in works have been completed during the October annual outage. The project is currently on budget and on schedule for a start up in December 2012. As of today, this project has been funded by grants received under the Canadian Green Transformation Program.

Capital expenditures at the Fairmont and Menominee Mills totalled \$1.2 million for the third quarter ended September 30, 2011, compared with \$1.1 million for the corresponding period of 2010. The investments for the Fairmont and Menominee Mills consisted mainly of process improvement projects and asset maintenance expenditures.

For the nine-month period ended September 30, 2011, capital expenditures at the Mills totalled \$10.2 million, of which \$6.9 million were invested at the Saint-Félicien Mill and \$3.3 million at the Fairmont and Menominee Mills. For the corresponding period of 2010, capital expenditures at the Saint-Félicien Mill reached \$6.6 million and capital expenditures at the Fairmont and Menominee Mills reached \$2.2 million, totalling \$8.8 million.

In 2011, the capital investment program provides for expenditures of \$15.7 million, of which \$8.9 million is required for asset maintenance and carry forward projects. In addition, the major maintenance program provides for \$6.9 million, which since the adoption of IFRS are included in capital assets.

Total capital expenditures for 2011 assume that future cash flows will be sufficient to cover such expenditures and that no extraordinary event will require increased capital expenditures, and are subject to the risks identified below under "Risk Factors" (see also "Forward-Looking Statements").

FINANCING ACTIVITIES

(in thousands of Canadian dollars) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Borrowings under the ABL Credit Facility	12,674	10,427	62,393	10,427
Borrowings under the Term loan, net of financing fees	-	75,691	-	75,691
Reimbursement of long-term debt (including the ABL Credit Facility)	(25,617)	(155,904)	(45,829)	(156,700)
Shares issuance costs	-	38,394	-	37,928
Redemption of Debentures	-	-	(51,749)	-
Refinancing fees	-	(1,302)	-	(2,026)
Interest paid	(2,050)	(1,670)	(7,083)	(8,193)
Cash flows used in financing activities	(14,993)	(34,364)	(42,268)	(42,873)

Cash flows used in financing activities totalled \$15.0 million for the third quarter of 2011, compared with \$34.4 million for the corresponding period of 2010. In the third quarter of 2011, Fibrek reimbursed \$18.0 million of the amounts drawn on its ABL Credit Facility to redeem the Debentures and made scheduled mandatory repayments of \$0.5 million. In the third quarter of 2010, a scheduled mandatory repayment of \$0.2 million was made on the Old Term Facility.

For the nine-month period ended September 30, 2011, cash flows used in financing activities totalled \$42.3 million, compared with cash flows used in financing activities of \$42.9 million for the corresponding period of 2010. In the nine-month period ended September 30, 2011, Fibrek used \$36.0 million from its ABL Credit Facility to redeem the Debentures, of which \$33.0 million was reimbursed, and made scheduled mandatory repayments of \$1.7 million, compared with scheduled mandatory repayments of \$1.0 million during the nine-month period ended September 30, 2010.

CREDIT FACILITIES

On July 16, 2010, Fibrek completed a series of transactions intended to, among other things, refinance the Old Credit Facilities (the "Refinancing Transactions"). The Refinancing Transactions were comprised of:

- a five-year secured term loan for an amount of \$78 million (the "Term Loan") bearing interest at a rate of 8.25% per year;
- a \$75 million three-year asset-based secured revolving credit facility (the "ABL Credit Facility" and, collectively with the Term Loan, the "New Credit Facilities"); and
- a \$40 million (gross proceeds) Rights Offering (see "Financing Activities - Rights Offering").

Pursuant to the Refinancing Transactions, Fibrek repaid its old revolving facility maturing on October 30, 2010 (the "Old Revolving Facility") and its old term facility maturing on October 30, 2012 (the "Old Term Facility" and together with the Old Revolving Facility, the "Old Credit Facilities").

Term Loan

The Term Loan provides for a five-year secured term loan in a principal amount of \$78 million and is to be repaid in quarterly instalments at a rate of approximately 1% per annum of the original principal amount thereof, with the balance due and payable at maturity, on July 15, 2015. The Term Loan bears interest at a rate of 8.25% per year, which is payable quarterly.

All obligations in respect of the Term Loan are secured by:

- a first ranking hypothec and first priority security interest on all the assets, movable and immovable, present and future, of the Company and its subsidiaries, with the exception of accounts receivable, inventory and assets relating thereto; and
- a second ranking hypothec and second priority security interest on all of the existing and subsequently acquired accounts receivable, inventory and assets relating thereto of the Company and its subsidiaries.

The Term Loan contains certain covenants and events of default customary to borrowings of this nature, including a requirement for the Company to maintain at all times certain minimum levels of supply under wood fibre and wastepaper supply agreements. The Term Loan also requires Fibrek to maintain certain customary financial ratios, namely an interest coverage ratio of not less than 2.0x at all times and a total debt to capitalization ratio of not more than 40% until December 31, 2011, 37.5% in 2012 and 35% thereafter. The Term Loan also provides for a quarterly mandatory repayment of \$187,500 which started on September 30, 2010.

ABL Credit Facility

The ABL Credit Facility provides for an initial term of three years for an amount of up to \$75 million. The amount available to be drawn under the ABL Credit Facility varies from time to time based on Fibrek's eligible accounts receivable and inventory levels. On August 3, 2011, as provided under the ABL Credit Facility, the term was extended for an additional year, bringing the maturity to July 15, 2014.

The obligations under the ABL Credit Facility are secured by:

- a first ranking hypothec and first priority security interest on all of the existing and subsequently acquired accounts receivable, inventory and assets relating thereto of the Company and its subsidiaries; and
- a second ranking hypothec and second priority security interest on all the assets, movable and immovable, present and future, of the Company and its subsidiaries, other than the above-mentioned accounts receivable, inventory and assets related thereto.

Borrowing availability under the ABL Credit Facility is limited to the lesser of:

- the sum of:
 - 85% of the Company's net amount of eligible accounts receivable plus
 - the lesser of:
 - 75% of the Company's net amount of eligible raw materials, eligible finished goods inventory and eligible in-transit inventory, or
 - 85% of the net orderly liquidation value of eligible raw materials, eligible finished goods inventory and eligible in-transit inventory, or
- \$75 million.

At the Company's option, all Canadian dollar denominated loans under the ABL Credit Facility bear interest at a rate based either on a "Canadian Prime Rate" or the applicable bankers' acceptance rate, plus a margin in each case. All US dollar denominated loans under the ABL Credit Facility bear interest at a rate based either on LIBOR or the US Base Rate, plus a margin in each case.

The ABL Credit Facility contains certain covenants and events of default customary to borrowings of this nature. The ABL Credit Facility also provides for certain springing financial covenants depending on the net amount available to draw. Should these covenants be triggered, the ABL Credit Facility would require Fibrek to maintain a fixed charge coverage ratio of not less than 1.2x and would put some limitations on capital expenditures.

Financial covenant ratios

The New Credit Facilities require Fibrek to maintain certain financial ratios as described above. Certain ratios, such as the interest coverage and fixed charge coverage ratios, are based on the previous twelve months financial information. For the twelve-month period ended September 30, 2011, Fibrek's ratios were as follows:

	Twelve-month period ended September 30, 2011	
	Actual	Covenant
<i>Term Loan</i>		
Interest Coverage Ratio	5.9 : 1.0	2.0 : 1.0
Total Debt-to-Capitalization ¹	17.4%	40.0%

1) The Term Loan provides that up to \$150 million of reduction in equity may be excluded from the calculation of the total Debt-to-Capitalization, following adoption of IFRS.

Credit Rating

Fibrek has a corporate family rating of B2 and a B1 rating on its senior secured credit facilities from Moody's Investors Service. A rating is not a recommendation to buy, sell or hold investments, and may be subject to revision or withdrawal at any time by the relevant rating agency.

RIGHTS OFFERING

Following completion of the conversion of the Fund into Fibrek pursuant to the Arrangement, Fibrek filed a short form prospectus qualifying the distribution of rights to subscribe for and purchase Common Shares in the capital of Fibrek for gross proceeds of \$40 million (the "Rights Offering"). On July 16, 2010, the Company issued an aggregate of 39,602,848 Common Shares pursuant to the Rights Offering, of which:

- 28,057,068 were issued upon the exercise of the basic subscription privilege;
- 2,996,274 were issued pursuant to the additional subscription privilege; and
- 8,549,506 were issued under a standby purchase agreement with Fairfax Financial Holdings Limited ("Fairfax").

Immediately following completion of the Rights Offering, Fairfax owned approximately 25.85% of the issued and outstanding Common Shares of Fibrek. Pursuant to the standby purchase agreement, the Company paid standby fees of \$400,000 to Fairfax.

The net proceeds of this transaction, representing \$37.9 million, were used to reduce the Company's debt.

DEBENTURES

On September 7, 2006, the Fund issued debentures (the "Debentures") in an aggregate principal amount of \$51,750,000 (including the over-allotment option) by way of a public offering. The obligations of the Fund under the Debentures were assumed by Fibrek as part of the Arrangement.

The Debentures, which were to mature on December 31, 2011, bore interest at an annual rate of 7% payable semi-annually on September 30 and December 31 of each year.

Redemption of Debentures

On February 28, 2011, Fibrek completed the partial redemption of its Debentures for an aggregate principal amount of \$25,874,000. The Company paid to the holders of redeemed Debentures a redemption price equal to the principal amount of the redeemed Debentures, plus accrued and unpaid interest up to but excluding the redemption date, for a total of \$26,161,719.

On June 28, 2011, Fibrek completed the redemption of the last portion of its Debentures for an aggregate principal amount of \$25,875,000. The Company paid to the holders of redeemed Debentures a redemption price equal to the principal amount of the redeemed Debentures, plus accrued and unpaid interest up to but excluding the redemption date, for a total of \$26,758,373.

Fibrek used available funds to pay the redemption price of the redeemed Debentures.

PSIF

On February 23, 2007, Fibrek obtained a \$6 million interest-free loan from Investissement Québec through the *Soutien à l'industrie forestière* program ("PSIF") to support investment in the forest industry. Under the loan agreement, Fibrek must comply with certain restrictive covenants, including the requirement to meet certain financial ratios which are less onerous on Fibrek than those of the New Credit Facilities. This loan allowed the Saint-Félicien Mill to modernize its facilities through, among other things, the upgrading of its unbleached pulp washing technology. The loan contains a mandatory repayment schedule of \$125,000 per month which started on December 31, 2010.

FINANCIAL POSITION

(in thousands of Canadian dollars) (unaudited)	As at	
	Sept. 30, 2011	December 31, 2010
Cash and cash equivalents	6,812	16,421
Accounts receivable	70,806	68,424
Inventories	100,014	77,187
Property, plant and equipment	369,719	382,609
Total consolidated assets	553,624	555,900
Accounts payable and accrued liabilities	71,480	56,092
Debentures	-	49,609
ABL Credit Facility	19,545	-
Long-term debt	81,458	82,798
Equity	350,575	335,273

Accounts receivable increased by \$2.4 million mainly due to higher pulp sales prices when compared to December 31, 2010.

Total **inventories** increased by \$22.8 million, mainly due to an increase in RBK pulp inventory and wastepaper, partly offset by the reduction in wood chips inventory.

The decrease in **property, plant and equipment** resulted mainly from the depreciation expense recorded during the nine-month period ended September 30, 2011.

The increase in **accounts payable and accrued liabilities** was mainly due to higher prices for raw materials and higher purchases during the third quarter which increased accounts payable as at September 30, 2011.

The increase of the amount drawn under the **ABL Credit Facility** was mainly due to support working capital requirements mainly in the RBK segment.

IMPAIRMENT OF LONG-LIVED ASSETS

Impairment testing for long-lived assets was not recalculated at the end of the third quarter of 2011 as no triggering events warranted the exercise. The latest test was performed as at January 1, 2010 in relation to the conversion to IFRS.

OUTSTANDING SECURITIES

As at September 30, 2011, there were 130,075,556 Common Shares and 3,161,092 options outstanding. As at the date of the present report, no change had occurred in the number of outstanding Common Shares and options.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

FibreK's financial instruments consist of cash and cash equivalents, accounts receivable, investment at fair value through profit or loss, accounts payable, derivative instruments, short-term and long-term debt. The table below presents the major assumptions for these financial instruments.

Financial instruments	Assumptions
Cash and cash equivalents Accounts receivable Accounts payable	Fair value is equal to book value due to the short term maturity nature of the instrument.
Investment at fair value through profit or loss Derivative instruments	Fair value is equal to last trading value of the period on public financial markets.
ABL Credit Facility Term Loan	Fair value is calculated using the same terms and conditions as at period-end except, for interest rates used for discounting purposes, as follows : a) Future interest payments, for the ABL Credit Facility, are calculated based on rates that are effective at year-end since the related debts are at variable rates. Future interest payments, for the Term Loan, are calculated based on the loan agreement. b) Future repayments are the same as required in the agreements. c) Interest rates used for discounting represent rates that the Company would have had at period-end.
PSIF – Investissement Québec	Fair value is determined by discounting future cash flows assuming that the Company would have had the cash from its current facilities at period-end.

In accordance with its hedging policy, Fibrek uses **financial instruments** on a case-by-case basis to cover itself against exchange rate fluctuations for specific minimal spot pulp sales. As at September 30, 2011, Fibrek had no hedging position relating to foreign exchange.

FibreK can also hedge the price of up to 50% of its gas consumption for 12 months in advance. As at September 30, 2011, Fibrek had no hedging position relating to gas prices.

FibreK is also exposed to credit risks on **accounts receivable** from its customers. In order to reduce the risk, Fibrek adopted policies which include reviews of new customers' credit history before extending credit and the conduct of regular reviews of existing customers' credit performance. As at September 30, 2011, two customers represented more than 10 % of Fibrek's total accounts receivable.

OFF-BALANCE SHEET ARRANGEMENTS

OPERATING LEASES

As at September 30, 2011, Fibrek had \$2.1 million in outstanding commitments under various leases for warehouses and equipment over the next five years.

CONTRACTUAL OBLIGATIONS

As at September 30, 2011, commitments of the Company related to the co-generation project amounted to \$12.2 million, a portion of which will be funded with grants from the Canadian Green Transformation Program.

Other than in the normal course of business and except for the commitments mentioned in the above paragraph and the redemption of Debentures (see "Liquidity and Capital Resources – Financing Activities – Debentures"), as at

September 30, 2011, there were no material changes to Fibrek's contractual obligations from those disclosed in the MD&A of the Company for the year ended December 31, 2010.

For 2011 and the foreseeable future, Management expects cash flows from operating activities and from other sources of financing to be sufficient to meet Fibrek's current contractual obligations. The foregoing assumes that pulp prices, sales volume and exchange rates will not significantly deteriorate, that operating, wood fibre, wastepaper and chemical costs will not increase materially, that wood fibre and wastepaper deliveries will be sufficient to fulfill the Mills' requirements and that no extraordinary event will require increased capital expenditures, and are subject to the risks identified below under "Risks Factors" (see also "Forward-Looking Statements").

GUARANTEES

In the normal course of business, Fibrek enters into agreements which contain features meeting the definition of a "guarantee" as defined by IFRS. These are customary in the industry.

Fibrek has entered into agreements which provide for indemnification provisions for its directors, trustees and officers against expenses including legal fees, judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which they are sued as a result of their service, subject to certain provisions. Fibrek purchases directors' and officers' liability insurance.

In connection with the Rights Offering, Fibrek entered into a dealer manager agreement with TD Securities Inc., and a stand-by purchase agreement with Fairfax, whereby Fibrek may have to indemnify the parties to these agreements with respect to the representations and warranties made.

Under the terms of the ABL Credit Facility, Fibrek agreed to indemnify, hold harmless and defend the lender, as agent for the lenders, from and against any and all losses, liabilities, claims, damages and expenses arising out of, in connection with or as a result of, among other, (i) the ABL Credit Facility and related loan documents, including the use of the proceeds and compliance with or enforcement by the lender of its rights thereunder, (ii) any contractual obligations entered into by Fibrek, (iii) the role of the lender in any actual or prospective investigation, litigation or other proceeding relating to the ABL Credit Facility, and (iv) the breach of any environmental legislation.

Under the terms of the Term Loan, Fibrek agreed to indemnify the lender for any costs resulting from (i) any change of law having affecting the lender's costs or revenues with respect to the Term Loan, (ii) an event of default, and (iii) a breach of any applicable law, including any environmental legislation.

No amount has been accrued in the Financial Report with respect to the foregoing guarantees and indemnities. The nature of these guarantees and indemnities prevents Fibrek from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties, if any.

SUMMARY OF QUARTERLY RESULTS

(in thousands of Canadian dollars except per share amounts and as otherwise indicated)	Quarters ended							
	Under IFRS							GAAP
	2011			2010				2009
	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31	Dec. 31
(unaudited)								
Average NBSK pulp prices (US\$/tonne) ¹	993	1,025	970	967	1,000	993	880	820
Exchange rate (CAN\$/US\$)	0.9802	0.9677	0.9860	1.0128	1.0391	1.0276	1.0409	1.0563
NBSK sales volume (tonnes)	83,069	89,720	90,199	89,268	73,920	89,835	90,604	82,397
RBK sales volume (tonnes)	88,361	100,502	83,193	79,881	88,905	103,205	96,547	90,589
Sales	138,267	148,340	132,083	131,454	132,177	154,819	138,089	115,729
EBITDA ²	12,374	16,588	15,779	11,681	20,076	21,678	16,072	359
Profit (loss) from operations	3,790	7,641	6,668	3,129	11,648	12,941	7,304	(9,730)
Net earnings (loss)	6,773	5,636	3,457	2,564	5,355	10,347	(1,672)	(15,744)
Net earnings (loss) per share ³								
- basic	0.05	0.04	0.03	0.02	0.04	0.11	(0.02)	(0.18)
- diluted	0.05	0.04	0.03	0.02	0.04	0.08	(0.02)	(0.18)

1) Average price delivered in North America as published by RISI.

2) Non-IFRS Measure. See "Non-IFRS Measures".

3) On July 16, 2010, the Company issued an aggregate of 39,602,848 Common Shares pursuant to the Rights Offering, (see "Liquidity and Capital Resources - Financing Activities - Rights Offering") increasing outstanding shares from 90,472,708 to 130,075,556 shares.

Quarterly results of Fibrek vary in line with prevailing pulp market prices, sales volume and exchange rates, principally that of the CAN\$/US\$ exchange rate.

Fibrek's quarterly results (including sales volumes) also vary from quarter to quarter as a result of the scheduled outages for major maintenance performed at the Mills. Scheduled outages at the Saint-Félicien Mill totalling 14 days were usually performed semi-annually during the second and fourth quarters of each year. Starting in 2011, major maintenance at the Saint-Félicien Mill has been reduced from 14 to 10 days per year. As for the Fairmont and Menominee Mills, each mill conducts three scheduled outages during the course of the year.

Sales reduction from the second quarter of 2010 to the third quarter of 2010 is mainly due to lower pulp inventories available for sales. The Company's RBK pulp inventory was approximately 14,000 tonnes lower when entering the first quarter of 2010 compared to inventory at the beginning of the second quarter of 2010. As well, Fibrek's NBSK pulp inventory was approximately 4,000 tonnes less when entering the first quarter of 2010 compared to inventory at the beginning of the second quarter of 2010. In addition, the Company's NBSK pulp inventory increased at the end of the third quarter of 2010 to prepare for the regular major maintenance shutdown in November 2010.

Difficult market conditions impacting both, pulp prices and volume resulted in lower EBITDA through 2009.

CHANGES IN ACCOUNTING POLICIES

The condensed consolidated financial report of the Company is prepared in accordance with IFRS. The Company has identified the accounting policies that are critical to the understanding of the Company's operations and financial results in the Company's condensed consolidated interim financial report and the notes thereto for the quarter ended September 30, 2011.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

For interim financial reports and annual financial statements relating to the fiscal year beginning on or after January 1, 2011, the Canadian Accounting Standards Board ("AcSB") has confirmed that IFRS replaces Canadian GAAP for publicly accountable enterprises.

Accordingly, Fibrek adopted accounting policies consistent with IFRS beginning with its interim financial report for the quarter ended March 31, 2011. Fibrek's interim financial report for the quarter ended September 30, 2011 includes comparative 2010 financial information, adjusted to reflect any changes in accounting policies resulting from the adoption of IFRS. For further details, please refer to note 21 of the condensed consolidated interim financial report for the quarter ended September 30, 2011.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the condensed consolidated interim financial report using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. The preparation of the condensed consolidated interim financial report also requires management to exercise judgement in the process of applying the accounting policies. These estimates are revised periodically. Results, as determined by actual events, could differ materially from the above estimates.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment ("PP&E") represented 67% of Fibrek's consolidated assets as at September 30, 2011. If Fibrek's estimated useful lives of these assets were incorrectly estimated, Fibrek could experience increased or reduced charges for depreciation of PP&E in the future. PP&E must be tested for recoverability whenever events or changes in circumstances indicate that the recoverable amount is less than its carrying value. Value in use is determined using discounted estimated future cash flows. The most significant assumptions underlying the recoverability of PP&E include projected revenues and EBITDA which are determined using key assumptions such as anticipated pulp prices, exchange rates, sales volume, wood fibre, wastepaper and other production costs, capital expenditures, interest expense and production outputs. Any previous impairment losses must be reversed where circumstances have changed such that the level of impairment in the value of the assets has been reduced. If the future was to materially differ from Management's best estimate of key economic assumptions and associated cash flows were to materially be different, Fibrek could potentially experience future material change in respect of its PP&E. Such changes do not result in a cash inflow or outflow and would not affect Fibrek's liquidity.

EMPLOYEE BENEFITS

Fibrek provides eligible employees with pension benefits under defined benefit pension plans and maintains defined contribution 401(k) plans for all US employees that meet service eligibility requirements. Since January 1, 2010, all Canadian non-unionized employees have stopped accruing benefit under the defined benefit pension plan and started with a new defined contribution plan. Certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets require significant judgement.

The accrued benefit obligation and expense are determined by independent actuaries on an annual basis, using the projected benefit method pro-rated on service, and based on Management's best economic and demographic estimates and significant actuarial assumptions, including expected years of service of employees, retirement age and specified benefit levels. The discount rate, which is used to determine the accrued benefit obligation, is based on market interest rates on high-quality long-term bonds. Future increases in compensation are based upon current benefit policies and economic forecasts. Defined benefit pension costs are also affected by the quantitative methods used to determine estimated returns on pension plan assets. The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns and asset allocation.

The significant actuarial assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions, because of updated historical information, or changes in the market conditions, for example, could materially affect Fibrek's employee benefit obligations and future expense, as well as its overall financial performance. The net actuarial gains or losses are recognized on the Company's statement of financial position and in the statement of comprehensive income and as such, the benefit expense is not impacted by those gains or losses.

TAX REASSESSMENT

In January 2009, Fibrek received notices of assessment for the 2002 and 2003 taxation years from the Canada Revenue Agency ("CRA") and the Ministère du Revenu du Québec ("MRO") reassessing the tax value allocated to the assets of the Saint-Félicien Mill at the time such assets were purchased by Fibrek from Abitibi-Consolidated Inc. in August 2002. These assessments do not involve any taxes payable. In October 2009, Fibrek requested a statement of revised losses from CRA and the MRO. In September 2010, the Company received from CRA a statement of revised losses. In December 2010, the Company filed a notice of objection within the prescribed delay. The CRA has since acknowledged receipt of Fibrek's notice of objection. An introductory meeting between Fibrek representatives and CRA took place in October 2011. Further meetings will be scheduled and a timeframe will be given once the enterprise valuator of CRA has reviewed the Company's file. A reduction in the value allocated to certain assets would reduce the amount of Canadian non capital losses available to reduce future taxable income, among others. Management used its best estimate of the outcome of the tax reassessment in its calculation of future income taxes. The outcome of the tax reassessment may require an adjustment to the recognized future income tax amounts. This adjustment or any revision of the estimation would be recognized in the interim consolidated financial report of Fibrek and the impact could be material.

RISK FACTORS

Risks and uncertainties are described in the MD&A of the Company for the year ended December 31, 2010, which can be found through the Internet on SEDAR at www.sedar.com.

OUTLOOK

During the third quarter of 2011, NBSK pulp prices continued to soften from historical highs reached last June. Looking forward, prices over the near term are expected to decline. According to the Pulp and Paper Products Council, global producer inventories for softwood pulp stood at 32 days at the end of September, down two days from August but slightly above the balanced level of 30 days. On the cost side, wood chip prices have been continuously increasing since the second quarter, leading to reduced margins. Management expects wood chip prices to remain under pressure during the fourth quarter, but perhaps stabilize at current levels.

The Company's RBK segment began to experience price reductions in September 2011. While this is positive for the competitiveness of RBK pulp prices and the health of RBK margins, the hardwood kraft pulp market remains very competitive for customers who do not require recycled content. The hardwood pulp market continues to see heavy price discounting as a result of oversupply. The fact that the Company's RBK volumes were essentially flat year-over-year, while prices were up about 13%, represents a clear indication of a strong RBK pulp demand. However, with market conditions not expected to change significantly in the near future, Management is keeping its focus on increasing margins of the RBK business through product development, improving the sales mix and securing a certain level of cost-plus contracts.

CERTIFICATION

During the quarter ended September 30, 2011, no changes were made to Fibrek's internal controls over financial reporting that materially affected, or would be reasonably considered to materially affect these controls.

ADDITIONAL INFORMATION

Additional information relating to Fibrek, including the Company's current Annual Information Form, can be found through the Internet on SEDAR at www.sedar.com.