EXHIBIT R-7

Bowater Canadian Forest Products Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

April 26, 2007

The following management's discussion and analysis provides a review of the financial condition and operating performance of Bowater Canadian Forest Products Inc. and its subsidiaries (the "Company") for the years ended December 31, 2006 and 2005. This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the fiscal years 2006 and 2005. All amounts discussed herein are denominated in Canadian dollars except where noted and have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Cautionary Statement Regarding Forward-Looking Information and Risk Factors

The following discussion and analysis provides information that management believes is useful in understanding the Company's operating results, cash flows and financial condition for the year ended December 31, 2006. This discussion should be read in conjunction with, and is qualified in its entirety by reference to, the audited Consolidated Financial Statements of the Company and related notes filed separately with the securities regulators in each of the provinces of Canada. Except for the historical information contained herein, the discussions in this document contain forward-looking statements and involve risks and uncertainties. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under "Risk Factors" in this report.

Impact of Accounting Pronouncements on Future Reporting Periods

The CICA issued three new Handbook Sections regarding financial instruments: Section 3855 "Financial Instruments – Recognition and Measurement", Section 3865 "Hedges", and Section 1530 "Comprehensive Income". These Sections apply to the Company for fiscal years beginning after October 1, 2006. Section 3855 expands on Handbook Section 3860 "Financial Instruments – Disclosure and Presentation", by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. Section 3865 provides alternative accounting treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on AcG-13 "Hedging Relationship" and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. Section 1530 introduces a new requirement to present certain revenues, expenses, gains and losses, that otherwise would not be immediately recorded in income, in a comprehensive income statement with the same prominence as other statements that constitute a complete set of financial statements. The application of these new Handbook Sections for financial instruments is not expected to have a significant impact on the Company, but will require the Company to present a new statement entitled "Comprehensive Income".

The CICA also subsequently amended Section 3855 "Financial Instruments – Recognition and Measurement". The amendment provides guidance on accounting for fees and costs incurred upon the exchange of debt instruments or modification of a financial liability.

The CICA has released two new Handbook Sections in relation to financial instruments: Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation". The standards enhance existing disclosures in previously issued Section 3861 "Financial Instruments – Disclosures and Presentation". Section 3862 places greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how those risks are managed. Section 3863 carries forward the same presentation standards as Section 3861. Both Sections will become effective for fiscal years beginning on or after October 1, 2007 and will require the Company to increase disclosure in the financial instruments note.

The CICA has released Section 1535 "Capital Disclosures". The Section requires additional disclosure about capital management. The Section will become effective for fiscal years beginning on or after October 1, 2007 and will require the Company to expand its disclosure in that area.

The CICA issued Section 3521 "Equity". The Section replaces Section 3250 "Surplus". The Section incorporates consequential amendments resulting from the issuance of Section 1530 "Comprehensive Income". The Section became effective for fiscal years beginning on or after October 1, 2006. As noted previously, the Company will be required to present a new statement entitled "Comprehensive Income" beginning in 2007.

Critical Accounting Policies and Estimates

Pension and Other Postretirement Benefit Obligations

Description

Judgments and Uncertainties Involved in the Estimate

The following inputs are needed to calculate the fair value of the Company's plan assets and employee future benefits. These inputs are also used to determine its net periodic benefit costs each year. The determination of these inputs requires judgment.

- discount rate – used to arrive at the net present value of the pension and other postretirement benefit obligations;
- return on assets – used to estimate the growth in invested asset value available to satisfy pension benefit obligations;
- rate of compensation increase – used to calculate the impact future pay increases will have on pension and other postretirement benefit obligations; and
- health care cost inflation rate – used to calculate the impact of future health care costs on postretirement benefit obligations.

The discount rate is determined by considering the timing and amount of projected future benefit payments and is based on a model that matches the plan's duration to published yield curves. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. In determining the rate of compensation increase, the Company reviewed historical salary increases and promotions while considering the impact of current industry conditions and future industry outlook. For the health care cost inflation rate, the Company considered historical trends in these types of costs in Canada.

The Company engages an independent actuarial firm to perform an actuarial valuation of the values of its pension assets and employee future benefits based on the inputs the Company provides to them.

Effect if Actual Results Differ from Assumptions

Variations in assumptions could have a significant effect on the net periodic benefit cost and employee future benefits reported in the Company's Consolidated Financial Statements. For example, a 25 basis point change in any one of these assumptions would increase (decrease) its 2006 pension and postretirement benefit expense and its employee future benefits as follows (in millions):

Assumption	Net Periodic Benefit Cost 25 Basis Point Increase	Net Periodic Benefit Cost 25 Basis Point Decrease	Employee Future Benefits 25 Basis Point Increase	Employee Future Benefits 25 Basis Point Decrease
Discount rate	$ (4.3)	$ 4.0	$ (45.4)	$ 48.0
Return on assets	(2.8)	2.8	-	-
Rate of compensation increase	1.2	(1.2)	6.1	(6.1)
Health care cost inflation rate	0.1	(0.1)	1.1	(1.0)

Long-lived Assets

Description

Losses related to impairment of long-lived assets are recognized when circumstances indicate the carrying values of the assets may not be recoverable. When there are indicators that the carrying value of a long-lived asset may not be recoverable, the Company evaluates the carrying value of the asset in relation to its expected undiscounted future cash flows. If the carrying value of the asset is greater than the expected undiscounted future cash flows, an impairment charge is recorded based on the excess of the long-lived asset's carrying value over its fair value. The Company recorded long-lived asset impairment charges of $25.5 million in 2006 and $57.7 million in 2005. (See Note 2 to its Consolidated Financial Statements).

Judgments and Uncertainties Involved in the Estimate

The Company's impairment loss calculations require it to apply judgment in estimating asset fair values and future cash flows, including periods of operation, projections of product pricing, first quality production levels, product costs, market supply and demand, foreign exchange rates, inflation and projected capital spending. One key assumption is the foreign exchange rate for U.S. dollar sales and U.S. dollar denominated assets and liabilities. The Company determined the foreign exchange rates based on market forward rates for 2007 followed by a gradual reversion to a 5-year historical average.

Effect if Actual Results Differ from Assumptions

If actual results are not consistent with the assumptions and judgments used in estimating future cash flows and asset fair values, actual impairment losses could vary positively or negatively from estimated impairment losses.

Tax Valuation Allowances

Description

The Company has significant future tax assets in Canada related to tax credit carryforwards and operating loss carryforwards. The Company evaluates its future tax assets and assesses the need for a valuation allowance based on changes in tax law, changes in facts or circumstances and all other relevant information. The Company has recorded a valuation allowance for almost all of its future tax assets. See discussion of the Company's valuation allowance in Note 7 to its Annual Consolidated Financial Statements.

Judgments and Uncertainties Involved in the Estimate

The Company is required to assess whether it is more likely than not that the future tax assets will be realized, based on forecasted income, or where necessary, the implementation of prudent and feasible tax planning strategies. The carrying value of its future tax assets (tax benefits expected to be realized in the future) assumes that the Company will be able to generate, based on certain estimates and assumptions, sufficient future taxable income in certain tax jurisdictions to utilize these future tax benefits, or in the absence of sufficient future taxable income, that the Company would implement tax planning strategies to generate sufficient taxable income.

Effect if Actual Results Differ from Assumptions

If actual results are not consistent with the assumptions and judgments used in determining and estimating the realization of its future tax assets, actual tax expense could vary positively or negatively from its estimates.

Overview and Description of the Business

The Company is a wholly-owned subsidiary of Bowater Canada Inc. ("Bowater Canada"), which is an indirect, wholly-owned subsidiary of Bowater Incorporated.

The Company operates five paper-manufacturing sites and five sawmills in Canada:

- The Thunder Bay Operation is located in Thunder Bay, Ontario. The Thunder Bay Operation includes three paper machines, two kraft pulp mills, a thermo-mechanical pulp ("TMP") mill and a recycling plant. In 2003, the Company idled newsprint production on paper machine No. 3 as a result of the operating environment at the time in Ontario related to wood and energy costs and the stronger Canadian dollar. Based on the continued decline of North American newsprint consumption, the Company currently has no plans to restart this machine. Accordingly, the Company recorded a non-cash impairment charge in 2006 to write down the value of this paper machine to its estimated fair value. Another of the paper machines, which has an annual capacity of approximately 160,000 metric tons, was idled in the third quarter of 2006. The Company will restart this paper machine at our Thunder Bay, Ontario facility during May 2007. We believe that this facility, with its quality assets and multiple fiber furnishes, combined with a dramatically improved cost structure, is well positioned to produce lightweight specialty grades. In May 2006, the Company permanently closed the "A" kraft pulp mill primarily to reduce wood and energy costs associated with the mill. See Note 2. "Impairment of assets" in the Notes to Consolidated Financial Statements in the Company's audited Annual Consolidated Financial Statements as of December 31, 2006 for additional discussion about the impairment charges related to these closures.

- Bowater Maritimes Inc. (the "Dalhousie Operation") is located in Dalhousie, New Brunswick. On December 22, 2006, the Company purchased the remaining 33% interest in the Dalhousie Operation from the minority partners, Oji Paper Co., Ltd. and Mitsui & Co., Ltd. (see Note 3 "Acquisitions" in the Notes to Consolidated Financial Statements in the Company's audited Annual Consolidated Financial Statements as of December 31, 2006). The Dalhousie Operation has two newsprint machines, which both have the ability to produce uncoated mechanical paper, and a TMP mill. These machines were rebuilt in 1982. This operation has a deep sea docking facility that can accommodate ocean freighters, providing access to ports along the eastern seaboard of the United States and throughout the world.
- The Dolbeau Operation, located in Dolbeau, Québec consists of two specialty paper machines and a TMP mill.
- The Donnacona Operation, located in Donnacona, Québec, consists of one specialty paper machine and a TMP mill.
- The Gatineau Operation is located in Gatineau, Québec. The Gatineau Operation consists of three paper machines, a TMP mill and a recycling plant. On March 27, 2007, the ultimate parent company, Bowater Incorporated, announced that it had curtailed newsprint and specialty production at Gatineau in light of weak newsprint demand in North America which has declined 12% year to date compared to 2006.
- Five sawmills located in Québec (Price, Maniwaki, Saint-Félicien, Girardville, and Mistassini). In 2006, the Company permanently closed its Girardville sawmill as a result of the high cost of fiber and low annual allowable cut from Crown-owned land, which made it prohibitively expensive to operate. As a result, the Company recorded a non-cash impairment charge in 2006 to write down the value of this sawmill to its estimated fair value. See Note 2. "Impairment of assets" in the Notes to Consolidated Financial Statements in the Company's audited Annual Consolidated Financial Statements as of December 31, 2006 for additional discussion about the impairment charges related to this closure;
- The Thunder Bay Sawmill is located in Thunder Bay, Ontario. In December 2006, the Company began curtailing hours of operations at the Thunder Bay Sawmill due to the implementation of the Softwood Lumber agreement which is discussed further below; and
- The Ignace Sawmill is located in Ignace, Ontario. In December 2006, the Company announced the permanent shut of its Ignace Sawmill due to lumber quotas as discussed in Outlook -*Antidumping and Countervailing Duties*. Accordingly, the Company recorded a non-cash impairment charge in 2006 to write down the value of this sawmill to its estimated fair value. See Note 2. "Impairment of assets" in the Notes to Consolidated Financial Statements in the Company's audited Annual Consolidated Financial Statements as of December 31, 2006 for additional discussion about the impairment charges related to this closure.

The Company manages 27.9 million acres of Crown-owned land in Québec, New Brunswick and Ontario on which the Company has cutting rights. The Company also supplies wood to five paper mills and five sawmills and is also responsible for the marketing and sales of Canadian lumber production. All paper sales made to the U.S. are transacted through Bowater America, Inc., a wholly-owned subsidiary of Bowater Incorporated, the ultimate parent company.

In January 2007, Bowater Incorporated, the Company's ultimate parent company, and Abitibi-Consolidated Inc. ("Abitibi") announced a definitive agreement to combine in an all-stock merger of equals (with the newly merged company herein referred to as "AbitibiBowater"). Under the terms of the transaction, each common share of Abitibi will be exchanged for 0.06261 common share of AbitibiBowater, and each Bowater Incorporated common share will be exchanged for 0.52 common share of AbitibiBowater. The exchange ratio will result in 48% of AbitibiBowater being owned by former Abitibi shareholders and 52% of AbitibiBowater being owned by former Bowater Incorporated shareholders. This combination has been approved unanimously by the Boards of Directors of both companies, which received fairness opinions from their respective financial advisors. The combination is subject to approval by the shareholders of both companies, regulatory approvals, and customary closing conditions. The combination is expected to be completed in the third quarter of 2007. Abitibi and Bowater Incorporated will continue to operate separately until the transaction closes.

During the third quarter of 2006, the Company's ultimate parent company, Bowater Incorporated, announced that it was realigning its organizational structure to move from a divisional organization to a functional organization that supports and focuses on its multi-line manufacturing and sales across its mill base. As a result of this organizational realignment, the Company now internally manages its business based on the products that the Company manufactures and sells to external customers and, therefore, its reportable segments have been changed. The Company's primary product lines include specialty papers, newsprint, market pulp, and lumber. The segment information presented herein reflects the new reportable segments and prior year information has been recast to the current year presentation (see Note 23, "Segment Information" in the Notes to Consolidated Financial Statements in the Company's audited Annual Consolidated Financial Statements as of December 31, 2006).

The Company is currently marketing for sale approximately 15,000 acres of timberlands in Canada. The Company expects the sales to be completed in 2007. The total amount of assets held for sale are carried on the Consolidated Balance Sheets at cost as the Company expects the proceeds of the timberland sales to exceed their individual carrying values.

In June 2006, the Company sold approximately 156,000 acres of timberlands located in Québec for proceeds of approximately $48.3 million. In connection with the sale, the Company recorded a gain of approximately $37.1 million during the second quarter of 2006.

On April 21, 2006, the Company sold its Baker Brook sawmill and approximately 225,000 acres of timberlands located in New Brunswick for combined proceeds of approximately $79.4 million. In connection with the sale, the Company recorded a gain of approximately $51.1 million during the second quarter of 2006.

On March 27, 2006, the Company sold its Dégelis sawmill located in Dégelis, Québec for proceeds of approximately $7.1 million. In connection with the sale, the Company recorded a gain of approximately $0.2 million during the first quarter of 2006.

During the year, the Company also disposed of miscellaneous other assets for proceeds of $0.4 million. In connection with the sale of these miscellaneous other assets, the Company recorded a gain of approximately $0.2 million during 2006.

In December 2005, the Company sold Rocky Brook Fishing Club located in Boiestown, New Brunswick for proceeds of approximately $8.7 million. In connection with the sale, the Company recorded a gain of approximately $8.6 million during the fourth quarter of 2005.

In January 2005, the Company sold its treated wood facility located in Dégelis, Québec for proceeds of $0.7 million. In connection with the sale, the Company recorded a loss of approximately $0.4 million during the first quarter of 2005.

During 2005, the Company also disposed of other timberlands for proceeds of $0.3 million. In connection with the sales, the company recorded a gain of approximately $0.1 million.

The Company's products are, in large part, commodities with global markets. Its business is influenced by general economic conditions that impact its customers as well as changes within its industry that affect demand, supply, pricing, shipments or the cost of production.

The manufacturing facilities the Company operates are capital intensive and require significant amounts of cash to maintain. The Company's ability to generate cash flow is dependent on achieving revenues that exceed manufacturing costs and the amount of cash that must be reinvested in the business.

The majority of the Company's customers are located outside Canada with sales denominated primarily in U.S. dollars. Therefore, fluctuations in currency rates can have a significant impact on its revenues and cash flows. In particular, the movement of the U.S. dollar can materially influence its results. A stronger American dollar will typically strengthen its results and conversely a weaker American dollar will tend to weaken its results. The Company can also be subject to government imposed trade restrictions that can limit shipments or increase its costs.

The strength of the economy influences the level and extent of publishing and advertising, which in turn affects the demand for the Company's pulp and paper products. A decline in demand for its products also would likely have a negative effect on prices. Changes in the level of supply caused by capacity additions or contractions will also influence the supply and demand balance for its products and have a direct impact on shipment levels and pricing.

Significant cost components of the Company's products can be highly volatile and include wood, energy, commodity and specialty chemicals, and labor and benefit costs.

Risk Factors

Except for the historical information contained herein, the discussions in this document contain forward-looking statements within the meaning of applicable securities laws including, among others, statements made or implied that relate to the Company's objectives, strategies to achieve those objectives, the Company's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectation that are not historical facts. Forward-looking statements generally can be identified by words such as "outlook", "objectivity", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plan", or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect the Company's current beliefs and are based on information currently available to management.

These statements are not guarantees of future performance and are based on the Company's estimates and assumptions that are subject to risks and uncertainties, including those described in this "Risk Factors" section and the Company's other documents, including interim Management's Discussion and Analysis of Financial Condition and Results of Operations filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results and performance of the Company to differ materially from the forward-looking statements contained herein. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that the general economy remains stable; interest rates are relatively stable; competition in the forest products industry remains strong; and the Canadian dollar remains strong against the U.S. dollar. The Company cautions that this list of factors is not exhaustive. Although the forward-looking statements contained herein are based upon what the Company believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

Market conditions and the Company's responses may result in adverse effects to its results of operations and financial condition

Most of the Company's products are world-traded commodity products. Prices for its products have been volatile. The Company, like other participants in the forest products industry, has limited influence over the timing and extent of price changes for its products. Instead, these price changes depend primarily on industry supply and customer demand. Industry supply depends primarily on available manufacturing capacity, and customer demand depends on a variety of factors, including the health of the economy in general and the strength of both print media advertising and new home construction. The North American and global economies and the markets for its products weakened significantly over a period of several years and market conditions continue to be challenging. Industry statistics indicate that North American newsprint consumption has been declining. In 2006, year-over-year newsprint demand in North America declined by 5.5%. In 2006, year-over-year newsprint demand in North America declined by 6.0%. This decline has continued into the first quarter of 2007 with a 12% decline compared to same time period in the prior year. We believe these declines are due to conservation measures taken by publishers, reduced North American newspaper circulation, and substitution of other uncoated mechanical grades.

The Company is responding to current and projected market conditions. In 2003, the Company idled newsprint production on paper machine No. 3 at its Thunder Bay facility. Based on the continued decline of North American newsprint consumption in 2006, the Company currently had no plans to restart the machine. Accordingly, the Company recorded a non-cash asset impairment charge in the third quarter of 2006 of \$16.2 million to write-down the value of this paper machine to its estimated fair value. In addition, the Company further curtailed paper production at its Thunder Bay facility on September 16th by idling the other two paper machines. The Company restarted one of the paper machines during the week of October 16th. The Company will restart this paper machine at our Thunder Bay, Ontario facility during May 2007. If existing market conditions continue or worsen, it may be necessary to further curtail production, permanently shut down idled machines, shut down or curtail production of other machines or facilities, or further delay or cancel conversion opportunities.

Intense competition in the forest products industry could adversely affect the Company's operating results and financial condition

The markets for the Company's products are all highly competitive. Actions by competitors can affect its ability to sell its products and can affect the volatility of the prices at which its products are sold. In addition, its industry is capital intensive, which leads to high fixed costs. Some of its competitors may be lower-cost producers in some of the businesses in which the Company operate. The Company also believes that new hardwood pulp capacity in South American pulp mills has unit costs that are significantly below those of its hardwood kraft pulp mills. Global newsprint capacity, particularly Chinese and European newsprint capacity, has been increasing, which is expected to result in lower prices, volumes or both for the Company's exported products. Other actions by competitors, such as reducing costs or adding low-cost capacity, may adversely affect the Company's competitive position in the products the Company manufactures and, consequently, its sales, operating income and cash flows.

Developments in alternative media could further adversely affect the demand for its products

Trends in advertising, electronic data transmission and storage, and the Internet could have further adverse effects on traditional print media, including its products and of those of its customers, but neither the timing nor the extent of those trends can be predicted with certainty. Its newspaper, magazine and catalog publishing customers may increasingly use, and compete with businesses that use, other forms of media and advertising and electronic data transmission and storage, including television and the Internet, instead of newsprint, coated paper, uncoated specialty papers or other products made by us. Although the Company cannot predict their timing or extent, the Company believes these trends have adversely affected classified advertising. The Company also believes these trends have adversely affected newspaper circulation and, consequently, demand for newspaper advertising. To the extent that its customers devote their resources to other forms of media and advertising and electronic data transmission and storage instead of businesses that use its products, future demand for the Company's products may be adversely affected. Adverse effects on the demand for the Company's products may decrease its sales, operating income and cash flows.

There can be no assurance that the Company will return to profitability.

The Company incurred net losses for the 2006 and 2005 fiscal years. These losses occurred despite the completion of an aggressive cost savings initiative in 2004, continuing efforts to control costs in 2005, and the initiation in late 2005 of cost reduction program in 2006, which the Company fully implemented. In addition to its cost savings efforts, the Company implemented price increases for newsprint and specialty papers in 2006 and 2005, although revenues remained at $1.8 billion in 2005 and decreased to $1.6 billion in 2006. While the Company will continue to identify and implement cost and cash savings initiatives and to seek opportunities to enhance its revenues, these steps may not be sufficient by themselves to enable it to return to profitability.

Currency fluctuations may adversely affect the Company's results of operations and financial condition

The Company's sales are denominated in the currency of the country in which they occur, and only a small portion of its sales are denominated in Canadian dollars. A significant portion of its sales is denominated in U.S. dollars. Accordingly, the Company is particularly sensitive to changes in the value of the Canadian dollar versus the U.S. dollar. The impact of these changes primarily depends on its production and sales volume, the proportion of its financial assets and liabilities denominated in U.S. dollars, and the magnitude, direction and duration of changes in the exchange rate. For example, in some quarters Canadian dollar exchange rates may change less than one cent, while in others the change may be several cents or more. From January 1, 2006 to December 31, 2006, the relative value of the Canadian dollar versus the U.S. dollar increased from US$0.86 to a peak at US$0.91 in May 2006. Such increases in the value of the Canadian dollar versus the U.S. dollar can significantly reduce the Company's sales and thus reduce its earnings, which are reported in Canadian dollar terms.

Changes in foreign currency exchange rates can affect its competitive position and selling prices. The Company expects exchange rate fluctuations to continue to impact costs and revenues; however, the Company cannot predict the magnitude or direction of this effect for any quarter, and there can be no assurance that the future effect will be similar to that set forth above.

Raw material and energy prices are volatile, and shortages or price increases could adversely affect the Company's operating results

The Company buys energy and raw materials, including chemicals, wood, recovered paper and other raw materials, primarily on the open market. The prices for raw materials and energy are volatile and may change rapidly, directly affecting its results of operations. The availability of raw materials and energy may also be disrupted by many factors outside its control, adversely affecting its operations.

The Company is a major user of renewable natural resources such as water and wood. Accordingly, significant changes in climate and agricultural diseases or infestation could affect its financial condition and results of operations. The volume and value of timber that the Company can harvest or purchase may be limited by factors such as fire and fire prevention, insect infestation, disease, ice storms, wind storms, flooding, other weather conditions and other causes. As is typical in the industry, the Company does not maintain insurance for any loss to its standing timber from natural disasters or other causes. Its supply of wood is also affected by factors that impact production levels within the lumber industry such as currency fluctuations, duties, harvesting restrictions and finished lumber prices. The Company experienced a restricted supply of third party sawmill wood chips to its Thunder Bay mill due to production levels within the industry during 2005 and had increased wood costs at several of its other mills. Lumber export quotas were imposed by the provinces of Ontario and Québec upon implementation of the Softwood Lumber Agreement in late 2006. This decision, combined with the reductions in softwood timber harvesting mandated by the province of Québec in 2004 with further reductions in late 2006, may significantly reduce lumber production at certain Canadian sawmills. The Company may experience similar supply restrictions and increases in fiber costs in future periods.

The Company is exposed to changes in banking and capital markets and changes in interest rates

The Company requires both short-term and long-term financing to fund its operations, including capital expenditures. Changes in banking, capital markets, or its credit rating could affect the cost or availability of financing. In addition, the Company is exposed to changes in interest rates with respect to (1) floating rate debt and (2) the interest rate of any new debt that the Company may issue. Changes in the capital markets or prevailing interest rates can increase or decrease the cost or availability of financing.

Changes in laws and regulations could adversely affect the Company's results of operations

The Company is subject to a variety of foreign, federal, provincial, state and local laws and regulations dealing with trade, employees, transportation, currency controls, taxes and the environment. Changes in, or more stringent enforcement of, these laws or regulations have required in the past, and could require in the future, substantial expenditures by the Company and adversely affect its results of operations. For example, changes in environmental laws and regulations have in the past and could in the future require the Company to spend substantial amounts to comply with restrictions on air emissions, wastewater discharge, waste management and landfill sites, including remediation costs. Environmental laws are becoming increasingly more stringent. Consequently, its compliance and remediation costs could increase materially. An example is limitations imposed on lumber shipments from Canada into the United States, including export tax and quotas discussed in the section entitled outlook -*Antidumping and Countervailing Duties.*

Bowater Incorporated and the Company may fail to realize the anticipated synergies and other benefits expected from its proposed combination with Abitibi, which could adversely affect the Company's anticipated results of operations and financial condition.

The Company cannot predict whether and when these other conditions will be satisfied. The proposed combination between Bowater Incorporated, its Ultimate Parent Company, and Abitibi may not be consummated due to several factors, including without limitation, the ability to obtain required government consents without material concessions, the failure of Abitibi or Bowater Incorporated to approve the combination and the exercise by a material percentage of Abitibi shareholders of their dissent rights.

Even if the combination is consummated, the business of Bowater Incorporated, its ultimate parent company, and Abitibi may not be integrated successfully; the cost savings, revenue enhancements and other expected synergies from the transaction, some of which are expected to affect the Company, may not be fully realized or may take longer to realize than expected; and, disruptions for the transaction may make it more difficult to maintain relationships with customers, employees or suppliers. Should any of these risks transpire, the results of operations and financial condition of both the combined company and the Company may be materially and adversely affected.

Changes in the political or economic conditions in Canada, the United States or other countries in which its products are manufactured or sold could adversely affect its results of operations

The Company manufactures its products in Canada and sells its products throughout the world. The economic and political climate of each region has a significant impact on costs, prices of and demand for the Company's products. Changes in regional economies or political stability, including acts of war or terrorist activities, can affect the cost of manufacturing and distributing its products and pricing and sales volume, directly affecting its results of operations. Such changes could also affect the availability or cost of insurance.

The Company may be subject to environmental liabilities

As an owner and operator of real estate and manufacturing and processing facilities, the Company may be liable under environmental laws for cleanup and other costs and damages, including tort liability and damages to natural resources, resulting from past or present spills or releases of hazardous or toxic substances on or from its current or former properties (see "Legal Proceedings"). Such liability may extend to costs of installing and maintaining additional equipment or other modifications to control normal or extraordinary discharges. The

Company may incur liability under these laws without regard to whether the Company knew of, were responsible for or owned the property at the time of any spill or release of hazardous or toxic substances on or from its property, or at properties where the Company arranged for the disposal of regulated materials. Claims may arise out of currently unknown environmental conditions or aggressive enforcement efforts by governmental or private parties.

Financial Performance - Selected Annual Information

Comparative Annual Information

	Year Ended December 31,		
(In millions) [1]	**2006**	2005	2004
Sales	$ **1,572.5**	$ 1,764.9	$ 1,770.6
Operating loss	**(105.8)**	(219.9)	(100.9)
Net loss	**(50.6)**	(350.6)	(96.0)
Assets	**2,210.4**	2,473.3	2,700.5
Long-term debt	**262.5**	389.8	416.9
Advances from affiliates	**143.0**	857.8	1,616.5
Dividends declared	**1.3**	1.4	1.6

(1) As the Company is a wholly owned subsidiary of Bowater Canada Inc., net loss on a basic per-share and diluted per-share basis and cash dividends declared per share are not meaningful.

Year Ended December 31, 2006 compared to 2005

Operating loss for 2006 was $105.8 million on sales of $1,572.5 million compared with an operating loss of $219.9 million on sales of $1,764.9 million for 2005. The decrease in operating loss was primarily due to lower manufacturing and distribution costs, asset impairment charges, and the refund of lumber duties (see "Outlook" *Antidumping and Countervailing Duties* for further discussion), offset by lower sales. The Company's sales are primarily transacted in U.S. dollars. The decrease in sales is primarily due to a weaker U.S. dollar during 2006 compared to 2005, partially offset by higher product pricing. For further discussion related to the decrease in sales see "Selected Segment Information."

Interest expense, net decreased from $150.6 million in 2005 to $41.3 million in 2006 primarily as a result of the capitalization of intercompany affiliate loans in the first quarter of 2006 (see Note 16. "Capital Stock" in the Notes to Consolidated Financial Statements in the Company's audited Annual Consolidated Financial Statements as of December 31, 2006) and the repayment of debt in 2006. A large portion of the Company's debt is denominated in U.S. dollars and interest expense for the debt is translated at the average rate of exchange in effect during the time period.

During 2005, based on operating losses and current evaluation of available tax planning strategies, it was determined in accordance with CICA Handbook Section 3465 that the Company would record a tax charge to establish a valuation allowance against its remaining net deferred tax assets, which were primarily for loss carryforwards and tax credits. Due to operating losses generated during 2005 and 2006, income tax benefits of approximately $141.0 million and $25.6 million, respectively, were entirely offset by tax charges to increase the valuation allowance.

The Company's net loss for 2006 was $50.6 million compared with a net loss of $350.6 million in 2005. The decrease in net loss for 2006 was primarily due to the decrease in operating loss and interest expense, net as discussed above and an increase in gains related to the disposals of capital assets, partially offset by the tax charges to increase the valuation allowance as discussed above.

Long-term advances from affiliates decreased $714.8 million from $857.8 million at the end of 2005 to $143.0 million at the end of 2006. The decrease is primarily attributable to the Company's issuance of Class A preferred stock to Bowater Canadian Holdings Incorporated ("BCHI") in exchange for the cancellation of $642.8 million of advances owed by the Company to BCHI.

Newsprint demand in North America declined 6.0% in 2006 compared to 2005, reflecting conservation measures taken by publishers, reduced North American newspaper circulation, lower advertising linage and substitution by other uncoated mechanical grades. North American demand for super high gloss paper ended down 2.4% and other uncoated mechanical ended up 1.2% in 2006 as compared to 2005. Global market pulp demand increased 3.9% in 2006.

Year Ended December 31, 2005 compared to 2004

Operating loss for 2005 was $219.9 million on sales of $1,764.9 million compared with operating loss of $100.9 million on sales of $1,770.6 million for 2004. This increase in operating loss was primarily due to asset impairment and severance charges of approximately $71.0 million associated with the closure of its Thunder Bay "A" kraft pulp mill, which closed in May 2006, and higher production costs. These increased costs were partially offset by higher product pricing across all products and improved volumes. Sales, which are primarily denominated in U.S. dollars, increased on a U.S. dollar basis as a result of favorable product pricing, but was partially offset by the impact of a stronger Canadian dollar.

Interest expense, net increased slightly from $147.3 million in 2004 to $150.6 in 2005. A large portion of the Company's debt is denominated in U.S. dollars and interest expense for the debt is translated at the average rate of exchange in effect during the time period.

During 2005, based on operating losses and current evaluation of available tax planning strategies, it was determined in accordance with CICA Handbook Section 3465 that the Company should record a tax charge to establish a valuation allowance against its remaining net deferred tax assets, which are primarily for loss carryforwards and tax credits. In connection with this requirement, the Company recorded a tax charge of $138.2 million in order to establish this valuation allowance. As a result, its effective tax expense rate of (3.3)% in 2005 was lower than the effective tax benefit rate of 42.7% in 2004.

The Company's net loss for 2005 was $350.6 million compared with a net loss of $96.0 million in 2004. The increase in net loss is primarily due to the items discussed above and lower foreign exchange gains on the Company's foreign denominated affiliate accounts and long-term debt.

Long-term advances from affiliates decreased $758.7 million from $1,616.5 million at the end of 2004 to $857.8 million at the end of 2005. The decrease is primarily attributable to the Company's issuance of preferred stock to Bowater Canada Finance Limited Partnership ("BCFLP") in exchange for the cancellation of $867.8 million of advances owed by the Company to BCFLP.

Newsprint demand in North America declined 5.5% in 2005 compared to 2004, reflecting continuing conservation measures taken by publishers, reduced North American newspaper circulation, lower advertising linage and substitution by other uncoated mechanical grades. North American demand for uncoated mechanical and high gloss specialty paper increased by 1.6% and 3.3%, respectively, compared to 2004. Global market pulp demand increased slightly in 2005.

Outlook

2006 was a year of significant change for Bowater Incorporated, the Company's ultimate parent company, as well as for the Company. In the latter part of 2006, Bowater Incorporated underwent a management transition and realigned its organizational structure from a divisional structure to a functional structure focusing on operational excellence. Following this realignment, the new management team has established a manufacturing culture focused on identifying manufacturing improvements, improving consistency in its operations and further reducing costs. In 2006, Bowater Incorporated exceeded its targeted US$80 million cost reduction program and in 2007 has targeted further cost improvements. The Company participated in the US$80 million cost reduction program and will participate in the further cost improvements targeted in 2007. For instance, in February 2007, the unions at the Company's Thunder Bay facility ratified an agreement that is expected to result in annual labor savings by over $16 million.

The Company, along with Bowater Incorporated, intends to continue to focus on improving its balance sheet and reducing its debt. The reduction in debt in 2006 was primarily due to the capitalization of intercompany affiliate loans in the first quarter of 2006 and a portion of the cash received from its asset sales program and the lumber duties refund received at the end of the year which was used to pay down its Series A Senior Notes. The Company received proceeds of $135.2 million in 2006 from the sale of timberlands and $110.5 from the refund of lumber duties and related interest.

Additionally, the Company is focused on improving its product mix. North American newsprint demand declined significantly in 2006 and there is no indication of whether, or at what level, demand may stabilize. The Company periodically evaluates its production options to focus on its more profitable product lines. The Company believes its operations are positioned to deliver quality products and that capital reinvestment in the business can be held to appropriate levels. If pricing or demand fall significantly below its projections, the Company's ability to generate sufficient cash flows to meet operating costs and capital expenditures in 2007 may be adversely impacted and the Company may be required to seek additional funding from its bank line or its ultimate parent company, Bowater Incorporated.

Bowater Incorporated, the ultimate parent company, has vigorously evaluated its strategic options. This evaluation resulted in the announcement, on January 29, 2007, that Bowater Incorporated had entered into an agreement to combine with Abitibi in a merger of equals. Bowater Incorporated believes, as a result of the combination, the combined company, which would become the Ultimate Parent Company, would be operationally and financially stronger and better able to meet changing customer needs while competing more effectively globally. Bowater Incorporated and Abitibi expect that the combination would generate approximately US$250 million of cost synergies from improved efficiencies in such areas as production, selling, administrative, distribution and procurement costs. As the Company will be a part of the combined company, AbitibiBowater, it is likely that the Company would also benefit from these cost synergies. The combination is expected to be completed in the third quarter of 2007, subject to the conditions described elsewhere in this report.

In connection with this announced merger, Bowater Incorporated has approved a retention and severance program which includes a number of the employees of the Company who may be impacted by the pending merger with Abitibi. This program provides a retention bonus for employees who remain employed with the Company through the closing of the merger or its cancellation and an additional retention bonus for employees who remain with the Company for a transition period following closing of the merger.

Antidumping and Countervailing Duties

On October 12, 2006, an agreement regarding Canada's softwood lumber exports to the U. S. became effective. The agreement provides for the return of approximately US$4.5 billion in accumulated cash deposits to Canadian industry with the remaining US$1 billion to U.S. interests. Through an arrangement with Export Development Corporation, which the government of Canada designated as its agent to expedite the refund of duties, the Company recovered approximately $110.5 million on November 10, 2006. The refund consisted of a return of $98.3 million of the duties paid and $12.2 million in interest due to the Company. The Company does not expect to recover any additional amounts.

The softwood lumber agreement (the "SLA") provides for softwood lumber to be subject to one of two ongoing border restrictions, depending upon the province of first manufacture with several provinces, including Nova Scotia, being exempt from these border restrictions. The provincial governments of Ontario and Québec selected a border restriction defined as Option B in the SLA, based upon input from the manufacturers within those provinces. Option B provides for a volume quota to be established for each company within a province. These volume quotas are based on historical production and are not transferable between provinces. For the Company's sawmills in Québec, the volume quota is in line with historical production, and the Company anticipates 2007 production to be similar to what the Company produced in 2006. The provincial government of Ontario also based its quota allocation on historical production, but did not provide for a mechanism that addressed the needs of new entrants. As a result, the volume that the Company was allocated is insufficient to operate both the Company's Ignace and Thunder Bay, Ontario sawmills; therefore, the Company decided to indefinitely shut its Ignace sawmill in December 2006. Based on Thunder Bay's allocated quota, production in 2007 will be limited to approximately 65% of its annual capacity. U.S. composite prices would have to rise above US$355 per thousand board feet before the quota volume restrictions would be lifted. The Company's average transaction price for lumber in the fourth quarter of 2006 was US$280 per thousand board feet.

Harvesting Reductions

In 2005, the Province of Québec mandated that the annual harvests of softwood timber on Crown-owned land would be reduced 20% below 2004 levels. The 20% reduction was required to be achieved, on average, for the period 2005 to 2008. In December 2006, the province of Québec increased that reduction to 23.8% below 2004 levels for the period 2008 to 2013. These requirements did not have any material impact on our results of operations or financial condition during 2006 and are not expected to have a material impact for 2007.

Legal Matters

On March 17, 2006, Weyerhauser Company Limited and Weyerhauser Company (collectively, "Weyerhauser") gave notice of a claim for arbitration against Bowater Incorporated and the Company, in the amount of $60.1 million. This contractual claim relates to the cost of remediating certain environmental conditions existing at the pulp and paper facility in Dryden, Ontario, which the Company sold to Weyerhauser in August 1998. The Company maintains a reserve for this claim, which the Company believes to be adequate, but which is substantially less than the claim amount. On January 29, 2007, the Company commenced arbitration for $2.5 million plus interest against Weyerhauser pertaining to other aspects of the sale of the Dryden facility. While the Company does not believe that these arbitrations, the decisions for which are expected by June 2007, will have a material adverse effect on the Company's financial position or results of operations, the Company can make no assurances about the arbitrators' decisions.

Employees

A four-year labor agreement covering approximately 225 employees at the Company's Thunder Bay woodlands operation was ratified on January 22, 2006. A new labor agreement covering approximately 200 employees at the Company's Donnacona facility was finalized in the third quarter of 2006. This new agreement will expire in April 2008.

During the second quarter of 2006, a labor agreement covering approximately 100 employees at the Company's Saint-Félicien facility expired. Although this labor agreement has expired, the Company considers relations with our employees to be generally good. Discussions between the Company and the unions are continuing, and the Company can provide no assurance regarding the outcomes or the timing of these negotiations or their effect on our operations.

In February 2007, the unions at the Company's Thunder Bay facility ratified an agreement that is expected to result in annual labor savings of over $16 million.

Selected Segment Information

During the third quarter of 2006, the Ultimate Parent Company, Bowater Incorporated ("Bowater"), announced the move from a divisional organization to a functional organization that supports and focuses on its increasingly multi-line manufacturing and sales across its mill base. Previously, the Company was organized by division but will duplicate the change being made by its parent company. With this change, the Company reports segment information on its main product lines which include newsprint, specialty papers, market pulp, and lumber. Prior year results have been recast to facilitate comparison to the 2006 presentation.

The following provides a brief description of the Company's operating results by reporting segment:

	Sales		Segment (Loss) Income	
(In millions)	**2006**	2005	**2006**	2005
Newsprint	**$ 616.7**	$ 670.3	**$ (38.2)**	$ (33.5)
Specialty Papers	**423.4**	416.3	**(53.5)**	(34.2)
Market Pulp	**252.2**	316.1	**(25.0)**	(20.2)
Lumber	**272.9**	335.8	**63.6**	(3.7)
Corporate and Other	**7.3**	26.4	**(52.7)**	(128.3)
Total	**$ 1,572.5**	$ 1,764.9	**$ (105.8)**	$ (219.9)

Newsprint: Newsprint sales decreased $53.6 million from $670.3 million for 2005 to $616.7 million for 2006. This decrease was primarily due to the impact of foreign exchange rates on sales, which are primarily transacted in U.S. dollars, partially offset by higher product pricing and shipments. In addition, the Company temporarily curtailed production of newsprint on two paper machines at its Thunder Bay facility on September 16, 2006. On October 19, 2006, one of the paper machines at the site was restarted. The Company will restart this paper machine at our Thunder Bay, Ontario facility during May 2007. This machine will now produce lightweight specialty grades.

Segment loss for newsprint increased $4.7 million from a loss of $33.5 million for 2005 to $38.2 million for 2006. This increase in segment loss was primarily due to lower sales, as discussed above, partially offset by lower manufacturing costs including lower wood and labor costs and repair materials.

Specialty Papers: Specialty papers sales increased $7.1 million from $416.3 million for 2005 to $423.4 million for 2006. This increase was primarily due to higher product pricing and shipments partially offset by the impact of foreign exchange rates on sales, which are primarily transacted in U.S. dollars.

Segment loss for specialty papers increased $19.3 million from a loss of $34.2 million for 2005 to $53.5 million for 2006. This increase in segment loss was primarily due to higher manufacturing costs primarily from higher energy, chemical, labor, and repair materials costs, partially offset by the higher sales, as discussed above.

Market Pulp: Market pulp sales decreased $63.9 million from $316.1 million for 2005 to $252.2 million for 2006. This decrease was primarily due to the impact of foreign exchange rates on sales, which are primarily transacted in U.S. dollars, and the permanent closure of the Thunder Bay "A" kraft pulp mill, partially offset by higher product pricing.

Segment loss for market pulp increased $4.8 million from a loss of $20.2 million for 2005 to $25.0 million for 2006. This increase in segment loss was primarily due to lower sales, as discussed above, partially offset by lower manufacturing costs. These lower manufacturing costs consisted of lower wood, chemical, and energy costs, repair materials and depreciation.

Lumber: Lumber sales decreased $62.9 million from $335.8 million for 2005 to $272.9 million for 2006. This decrease was primarily due to the impact of foreign exchange rates on sales, which are primarily transacted in

U.S. dollars, lower product pricing, and lower shipments due primarily to the sale of two of the Company's sawmills in the first half of 2006.

Segment income for lumber increased $67.3 million from a loss of $3.7 million for 2005 to income of $63.6 million for 2006. This increase in segment income was primarily due to the lumber duties refund, lower wood, energy and labor costs and repair materials. The lumber refund and these lower manufacturing costs were partially offset by lower production volumes and lower sales, as discussed above.

Corporate and Other: Corporate and Other sales decreased $19.1 million from $26.4 million for 2005 to $7.3 million for 2006. This decrease was primarily due to lower timber sales as a result of timberland sales in 2006.

Segment loss for Corporate and Other decreased $75.6 million from $128.3 million for 2005 to $52.7 million for 2006. This decrease in segment loss was primarily due to lower impairment charges in 2006 as compared to 2005, lower employee termination costs, and lower manufacturing and distribution costs for timber as the result of the timberland sales in 2006. This decrease in segment loss was partially offset by lower sales, as discussed above.

Summary of Quarterly Results

Reported Interim Period *(in millions of dollars)*	Sales	Operating Income (Loss)	Net Income (Loss)[1]
Quarter 4, 2006 [2]	**$ 358.5**	**$ 58.3**	**$ 75.4**
Quarter 3, 2006	**368.7**	**(72.1)**	**(82.2)**
Quarter 2, 2006	**402.3**	**(49.4)**	**1.4**
Quarter 1, 2006	**443.0**	**(42.6)**	**(45.2)**
	$ 1,572.5	**$ (105.8)**	**$ (50.6)**
Quarter 4, 2005	$ 435.6	$ (132.8)	$ (227.4)
Quarter 3, 2005	427.1	(45.0)	(30.1)
Quarter 2, 2005	463.4	(16.3)	(44.4)
Quarter 1, 2005	438.8	(25.8)	(48.7)
	$ 1,764.9	$ (219.9)	$ (350.6)

(1) As the Company is a wholly owned subsidiary of Bowater Canada, net loss on a basic per-share and diluted per-share basis is not meaningful.

(2) In the fourth quarter of 2006, the Company received $110.5 million in recovered lumber duties of which $98.3 million was a refund of lumber duties and $12.2 million was interest on the refunded lumber duties.

Summary of Financial Position

The following table summarizes the Company's cash flow for the years ended December 31, 2006 and 2005:

(In millions of dollars)	**2006**	2005
Change in Cash and Cash Equivalents		
- comprised of cash flow from (used in):		
Operating activities	**$ 160.1**	$ (217.4)
Investing activities	**29.8**	32.5
Financing activities	**(189.9)**	184.9

Liquidity

Cash from (used for) Operating Activities

During 2006, the Company generated cash of $160.1 million from operations compared to cash used of $217.4 million for 2005. The improvement in cash generated from operations for 2006 compared to 2005 is primarily attributable to the lumber duties refund, working capital changes, specifically a decrease in advances to affiliates, and a decrease in cost of sales and distribution costs, which was partially offset by lower sales as a result of the impact of foreign exchange rates on sales.

Cash from Investing Activities

During 2006, the Company generated cash of $29.8 million from investing activities compared to $32.5 million generated during 2005. The change in cash generated from investing activities for 2006 compared to 2005 is primarily attributable to an increase in proceeds from sale of capital assets, partially offset by an increase in capital asset additions, an increase in advances to affiliates, and the purchase of the remaining minority interest in Bowater Maritimes Incorporates.

Cash (used for) from Financing Activities

During 2006, the Company used cash of $189.9 million for financing activities compared to cash generated of $184.9 million during 2005. The change in cash used for financing activities for 2006 compared to 2005 is primarily attributable to the Company's repayment of long-term debt and long-term advances from its ultimate parent company, Bowater Incorporated.

Debt conversion

In February 2006, advances of approximately US$400.0 million owed by the Company to the ultimate parent company, Bowater Incorporated, were transferred by Bowater Incorporated to BCHI in exchange for common shares of BCHI. Immediately following this transaction the Company owed US$400 million to BCHI. These advances were immediately cancelled in exchange for the issuance by the Company of 455,200 Class A preferred shares to BCHI. Additionally, notes of approximately US$164.8 million due to BCHI were cancelled in exchange for the issuance by the Company of 187,558.536 Class A preferred shares to BCHI. These transactions resulted in the conversion of notes and advances from affiliates totaling US$564.8 million to

642,758.536 Class A preferred shares during 2006. These were non-cash transactions and had no impact on the Company's Results of Operations or Statements of Cash Flows for 2006.

In December 2005, the Company issued 867,768,765 Class B preferred shares to BCFLP, an indirect, wholly owned subsidiary of our ultimate parent company, Bowater Incorporated, in consideration for the cancellation of $867.8 million of long-term advances owed to BCFLP. This was a non-cash transaction and had no impact on the Company's Results of Operations or Statements of Cash Flows for 2005.

Capital Resources

During 2006 the Company spent approximately $63.4 million on capital projects, primarily for compliance and maintenance capital. We anticipate capital expenditures to be approximately $60 million in 2007, primarily for compliance and maintenance purposes.

The Company enters into various agreements, primarily supply agreements, in the normal course of business. The Company currently has contracted steam supply commitments for the Dolbeau operation that expire in 2023 and has total commitments for this facility of approximately $217.0 million ($11.6 to $12.5 million annually in years 2007 - 2011 and $156.8 million thereafter).

The Company believes that cash generated from operations, access to its credit facility, and funding from its ultimate parent company, Bowater Incorporated, will be sufficient to provide for anticipated requirements for working capital, contractual obligations, and capital expenditures for the next 12 months.

Credit Arrangements

On May 31, 2006, the ultimate parent Company, Bowater Incorporated refinanced its existing credit facility with a new facility of US$165 million 364-day renewable revolving credit facility (the "Canadian Credit Facility").

The Canadian Credit Facility provides for a US$165 million (CDN$191.4 million) revolving credit facility with a maturity date of May 28, 2008, subject to annual extensions. The Canadian Credit Facility is secured by liens on the inventory, accounts receivable and deposit accounts of the Company. Availability under the Canadian Credit Facility is limited to 65% of the net book value of the accounts receivable and inventory of the Company and its subsidiaries. Financial covenants under the Canadian Credit Facility are based upon Bowater Incorporated's consolidated financial results and consist of the following two ratios:

- a maximum ratio of senior secured indebtedness (including all advances and letters of credit under the Canadian facility, and any other indebtedness secured by assets of the Company) to EBITDA (generally defined as net income, excluding extraordinary, non-recurring or non-cash items and gains (or losses) on asset dispositions, plus income taxes plus depreciation plus interest expense) of 1.25 to 1; and
- a minimum ratio of EBITDA (defined as EBITDA, plus gains (or minus losses) from asset dispositions) to interest expense of 2.00 to 1.

The Ultimate Parent Company believes it is in compliance with all of its covenants and other requirements set forth in our credit facility.

As of December 31, 2006, the Company had approximately $153.6 million (US $132.4 million) available, net of letters of credit of $37.8 million (US$32.5 million) under the 364-day revolving credit facility. The Company had no amounts drawn on its credit facility as of December 31, 2006.

The Company has available other various lines of credit totaling $20 million, of which approximately $4.2 million was drawn and nothing was reserved for letters of credit as of December 31, 2006. Amounts drawn under these demand credit facilities bear interest at a prime rate.

On November 9, 2006, the Company repurchased US$95.3 million (CDN$107.7 million) face value of the Company's Series A Senior Notes, 10.625% due June 15, 2010 for total cash consideration of approximately $116.0 million or a 7.7% premium over face value. In addition to the premium charges of $8.3 million, the Company recorded charges of approximately $0.1 million for unamortized deferred financing fees in 2006.

Off-Balance Sheet Arrangements

At December 31, 2005 and 2006, the Company had no off-balance sheet arrangements that could have an effect on the results of its operations or financial condition.

Transactions with Related Parties

The Company, in the normal course of business and on normal commercial terms, makes sales of its manufactured products to Bowater America, Inc. ("BAI"), a wholly-owned subsidiary of Bowater Incorporated. During fiscal years 2005 and 2006, these sales amounted to $975.7 million and $872.4 million, respectively. BAI also acts as sales agent for the Company, providing access to export markets. The aggregate agency commissions paid by the Company to BAI in fiscal years 2005 and 2006 were $23.7 million and $26.5 million, respectively. The Company also receives, from time to time, certain administrative services from Bowater Incorporated. The aggregate charges for such services paid by the Company to Bowater Incorporated in respect of fiscal years 2006 and 2005 were $0.6 million and $0.5 million, respectively.

Fourth Quarter of 2006

Net income in the fourth quarter of 2006 was $75.4 million on sales of $358.5 million. This compares to a net loss of $227.4 million in the fourth quarter of 2005 on sales of $435.6 million. The decrease in net loss is due primarily to the lumber duties refund, lower sales, lower interest expense due to the capitalization of intercompany affiliate loans and the repurchase of debt, and lower asset impairment and severance charges.

Operating income for the fourth quarter of 2006 was $58.3 million compared to an operating loss of $132.8 million for the fourth quarter of 2005. This decrease was primarily due to the lumber duties refund and lower sales and asset impairment and severance charges, as described above.

Interest expense, net decreased from $37.7 million in the fourth quarter of 2005 to net interest income of $1.9 million in the fourth quarter of 2006. In 2006, the Company exchanged intercompany affiliate loans for Class A preferred shares and also repurchased most of its Series A Senior Notes. Additionally, in the fourth quarter the Company received $12.2 million of related interest with the lumber duty refund.

The effective tax rate of 5.1% for the fourth quarter of 2006 was higher than the effective tax rate of (32.6)% for the fourth quarter of 2005, primarily as a result of a $3.9 million tax charge associated with the reassessment of prior years. Additionally, any income tax benefit recorded on 2006 operating losses was offset by a 100%

valuation allowance (tax charge) during 2006. This has the impact of increasing our overall effective income tax rate in future periods.

Financial Instruments and Other Instruments

The carrying amounts of the Company's short-term financial assets and liabilities approximate fair value. The Company estimates the fair value of its long-term debt using rates currently available for debt with similar terms and remaining maturities. The carrying amount and fair value of the Company's long-term debt at December 31, 2006 was $278.4 million and $313.0 million, respectively. At December 31, 2006 the Company's financial assets that are exposed to concentrations of credit risk consist primarily of accounts receivable. Concentrations of credit risk with respect to receivables are limited due to the large number of customers and their dispersion across geographic areas. In addition, the majority of the Company's long-term debt is at fixed interest rates, thus limiting the interest rate risk.

Disclosure of Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares, of which 68,060,541 are issued and outstanding, an unlimited number of Class A preferred shares, of which 748,189.058 are issued and outstanding, and an unlimited number of Class B preferred shares, of which 867,768,765 are issued and outstanding.

Common shareholders are entitled to dividends upon consent from and subject to the prior right of the holders of the Class A preferred shares and Class B preferred shares. In the event of liquidation, dissolution or winding-up of the Company, the holders of common shares are entitled to receive the remaining assets of the Company, subject to the prior rights of the holders of the Company's Class A preferred shares and Class B preferred shares. The holders of common shares are entitled to one vote in respect of each common share at shareholder meetings, except a meeting of holders of a particular class of shares other than the common shares who are entitled to vote separately as a class at such meeting. The holders of the Class B preferred shares are entitled to elect one director of the Company, voting separately as a class.

Disclosure Controls and Procedures

The Company's management, including the President and Vice President and Treasurer are responsible for establishing and maintaining the Company's disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis to the Company's management, including the President and the Vice President and Treasurer, as appropriate, to allow timely decisions regarding required disclosure.

The President and the Vice President and Treasurer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings*) as at December 31, 2006 and have concluded that such controls and procedures are effective.

Additional Information

Additional information relating to the Company, including its audited Annual Consolidated Financial Statements for the Fiscal Year 2006, is available on SEDAR at www.sedar.com.