

Court File No.:

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c.C-36 AS AMENDED

AND IN THE MATTER OF A PROPOSED PLAN OF
COMPROMISE OR ARRANGEMENT WITH RESPECT TO
FRASER PAPERS INC., FPS CANADA INC., FRASER
PAPERS HOLDINGS INC., FRASER TIMBER LTD., FRASER
PAPERS LIMITED and FRASER N.H. LLC (collectively, the
"Applicants")

Applicants

APPLICATION RECORD
(Returnable June 18, 2009)

June 18, 2009

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TAB 1

1.
Court File No.:

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PAPERS LIMITED and FRASER N.H. LLC

Applicants

NOTICE OF APPLICATION

A LEGAL PROCEEDING HAS BEEN COMMENCED by the Applicants. The claim made by the Applicants appears on the following pages.

THIS APPLICATION will come on for hearing before a Judge presiding on the Commercial List on Thursday, June 18, 2009, at 8:00 a.m. at 330 University Avenue, Toronto, Ontario.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the *Rules of Civil Procedure*, serve it on the Applicants' lawyer or, where the Applicants do not have a lawyer, serve it on the Applicants, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the Applicants' lawyer or, where the Applicants do not have a lawyer, serve it on the Applicants, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but not later than 2:00 p.m. on the day before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES,

2.

LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date: June 18, 2009

Issued by:

Local Registrar

Address of Court Office:
330 University Avenue
Toronto, Ontario
M5G 1E6

TO: THIS HONOURABLE COURT

AND TO: TORYS LLP
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Attention: Peter H. Griffin

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Lawyers for the Directors

APPLICATION

1. The Applicants make an application for certain relief in accordance with an Order (the “Initial Order”) substantially in the form filed with this Application Record including:
 - (a) abridging the time for, or dispensing with, service of this Notice of Application and the Application Record herein on all parties other than those listed herein;
 - (b) declaring that the Applicants are companies to which the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “CCAA”) applies;
 - (c) staying all proceedings against the Applicants and their respective directors and officers;
 - (d) appointing PricewaterhouseCoopers Inc. (“PwC”) as Monitor of the Applicants;
 - (e) authorizing the Applicants to take such actions as are contemplated by the DIP Term Sheets in order to obtain the proceeds of DIP Financing, all as defined in the Initial Order;
 - (f) authorizing the Applicants to file a plan of compromise or arrangement with their creditors; and
 - (g) granting such further and other relief as this Honourable Court may deem just.

THE GROUNDS FOR THIS APPLICATION ARE:

2. Fraser Papers Inc. (“Fraser Papers”) together with the other Applicants, all of whom are direct or indirect wholly-owned subsidiaries of Fraser Papers, are an integrated business enterprise with operations in both the United States and Canada;

3. over the past few years, the Applicants have faced numerous market and financial challenges that have made it increasingly difficult to sustain their operations in the ordinary course, resulting in the shut down of certain machines and facilities;
4. a number of factors have contributed to the difficulties now faced by the Applicants, including:
 - (a) negative cash flow from their operations of USD \$65.4 million and USD \$55.5 million in 2007 and 2008, respectively, combined with a further shortfall of USD \$9.7 million in the first quarter of 2009;
 - (b) a sharp deterioration at Fraser Paper's pulp operations and continuing losses from its lumber operations which are only partially offset by the turnaround in its speciality paper business;
 - (c) under the current collective agreement, aggregate severance payments to unionized employees at Fraser Paper's facility in Thurso, Quebec of CDN \$7.8 million are due in two equal payments on November 9 and December 21, 2009 following the mill's temporary closure on June 1, 2009, which the Applicants have no ability to pay at this time;
 - (d) the Applicants are required to repay or refinance a USD \$25 million term loan with Canadian Imperial Bank of Commerce ("CIBC") in September 2009 and they have no ability to do so at this time;
 - (e) the Applicants have a substantial deficit of approximately USD \$171.5 million at December 31, 2008 in five defined benefit pension plans and three Supplemental Executive Retirement Plans and are required to make payments of USD \$3.5

million by September 30, 2009 and an additional USD \$10.1 million by December 31, 2009;

- (f) average annual payments of approximately USD \$34.7 million per year from 2010 to 2013 are expected to be required to fund the pension plans. Unless the Applicants are able to obtain a temporary funding holiday or an alternative funding formula is achieved, the Applicants have no ability to meet these obligations; and
 - (g) the Applicants owe trade suppliers in excess of USD \$10 million beyond normal credit terms and owe an additional USD \$7.7 million in property taxes to six municipalities;
- 5. the Applicants have made efforts to address some of the challenges facing them by raising equity capital through a rights offering to shareholders, by seeking additional funds under an existing credit facility with CIT Business Credit Canada and by securing loans from CIBC and the Province of New Brunswick. These efforts have not provided the Applicants with the liquidity necessary to meet their ongoing obligations;
 - 6. the Applicants are unable to pay their liabilities as they generally become due and are insolvent. The Applicants are affiliated debtor companies with total claims against them exceeding \$5 million and each of the Applicants is a company to which the CCAA applies;
 - 7. the Applicants require a stay of proceedings against remedies that might be taken against the Applicants to permit them to carry on business, preserve and enhance the value of

- their property for the benefit of their stakeholders and provide stability while they attempt to conduct negotiations with the goal of developing a restructuring plan;
8. the provisions of the CCAA, in particular sections 3, 4, 5, and 11;
 9. the inherent jurisdiction of this Honourable Court;
 10. Rules 2.03, 3.02, 14.05 and 38 of the *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended; and
 11. such further and other grounds as counsel may advise and this Honourable Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the application:

- (a) the Affidavit of J. Peter Gordon sworn on June 17, 2009;
- (b) the Consent of PwC to act as Monitor in these proceedings dated June 16, 2009;
- (c) the Pre-Filing Report of the proposed Monitor; and
- (d) such further material as counsel may advise and this Honourable Court permit.

June 18, 2009

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AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO FRASER PAPERS INC., FPS CANADA INC., FRASER PAPERS HOLDINGS INC., FRASER TIMBER LTD., FRASER PAPERS LIMITED and FRASER N.H. LLC (collectively, the “Applicants”) Applicants

Court File No.:

ONTARIO
**SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceedings commenced at Toronto

NOTICE OF APPLICATION

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TAB 2

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FRASER TIMBER LTD., FRASER PAPERS LIMITED and FRASER
N.H. LLC

Applicants

AFFIDAVIT OF J. PETER GORDON
(Sworn June 17, 2009)
(CCAA Initial Order)

I, **J. Peter Gordon**, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND
SAY AS FOLLOWS:**

1. I am the Chief Executive Officer and a Director of Fraser Papers Inc. ("Fraser Papers" or the "Company"), and hold the office of Chairman of each of the other Applicants (collectively, with Fraser Papers, the "Fraser Group") and as such I have personal knowledge of the matters to which I herein depose. Where the source of my information or belief is other than my own personal knowledge, I have identified the source and the basis for my information and verily believe it to be true.
2. All reference to currency in this Affidavit is \$USD unless otherwise noted.

I. OVERVIEW - NEED FOR PROTECTION

3. Fraser Papers is a specialty paper company with integrated paper, pulp and lumber operations. The Fraser Group is a consolidated business comprising various facilities in Canada and the United States of America (the "U.S."), operating under a combined cash management and accounting system and senior management decision making, including extensive intercompany transactions such as the sale and use of products and services among various business operations and legal entities. As such, the business is operationally and functionally integrated and not easily divisible based on legal entity or geographic boundaries.

4. The Fraser Group's operations and financial results are influenced by a number of factors, many of which are beyond the Applicants' control. The five most significant factors, in no particular order of importance, are: (i) the cyclical nature of the business; (ii) the competitive environment of the industry; (iii) product demand; (iv) cost control; and (v) foreign currency risk.

5. The Applicants have experienced many of the challenges faced by other companies in the North American forest products industry. The challenges faced by the Applicants include market issues and financial issues, the most pressing of which are as follows:

- (a) negative cash flow from its operations (prior to changes in non-cash working capital) of \$65.4 million and \$55.5 million in 2007 and 2008 respectively, combined with a further shortfall of \$9.7 million in the first quarter of 2009. The Company no longer has the ability to finance cash flow shortfalls of this magnitude;
- (b) the aforementioned cash flow shortfalls are being driven by a sharp deterioration at the Company's pulp operations, continuing losses from its lumber operations and are only partially offset by the turnaround in its specialty papers business;
- (c) under the current collective agreement, aggregate severance payments to unionized employees at the Company's Thurso facility of CDN\$7.8 million are due in two equal payments on November 9 and December 21, 2009, following the mill's temporary

closure on June 1, 2009. The Applicants have no ability to pay these amounts at this time;

- (d) the Applicants are required to repay or refinance a \$25 million term loan with Canadian Imperial Bank of Commerce ("CIBC") in September 2009 and they have no ability to do so at this time;
- (e) the Applicants have a substantial deficit, as determined in accordance with Generally Accepted Accounting Principles in Canada ("GAAP"), of approximately \$171.5 million at December 31, 2008 in five defined benefit pension plans and three Supplemental Executive Retirement Plans ("SERPs") and are required to make payments of \$3.5 million by September 30, 2009 and an additional \$10.1 million by December 31, 2009. Average annual payments of approximately \$34.7 million per year from 2010 to 2013 are expected to be required to fund the Pension Plans. Unless the Applicants are able to obtain a temporary funding holiday or an alternative funding formula is achieved, the Applicants have no ability to meet these funding obligations; and
- (f) the Applicants owe trade suppliers in excess of \$10 million beyond normal credit terms and owe an additional \$7.7 million in property taxes to six municipalities.

6. The Cash Flow Forecast (as hereafter defined) indicates that, in the absence of any DIP Financing (as hereafter defined), the Applicants will have insufficient cash with which to operate after June 30, 2009. Existing liquidity under the Applicants' revolving working capital facility is not expected to meet the Applicants' operating requirements beyond the next few weeks. The Applicants are insolvent, and their need for protection is immediate and urgent.

II. CORPORATE STRUCTURE OF THE APPLICANTS

A. Fraser Papers Inc. and its U.S. Subsidiaries

7. Fraser Papers was incorporated pursuant to the provisions of the *Canada Business Corporations Act*, and its registered head office is in Toronto, Ontario. On July 1, 2004 Fraser Papers, formerly a wholly-owned subsidiary of Nexfor Inc., became a separate publicly traded company. Its stock is listed on the Toronto Stock Exchange under the symbol "FPS".

8. As at June 1st, 2009, the issued and outstanding capital of Fraser Papers consisted of 50,166,789 common shares. There are no other classes of shares outstanding at this time. As at December 31, 2008 Brookfield Asset Management Inc. ("Brookfield") owned, directly or indirectly, approximately 70.5% of the outstanding common shares of Fraser Papers.

9. Each of the other Applicants are direct or indirect wholly-owned subsidiaries of Fraser Papers. Annexed hereto and marked as Exhibit "A" is a simplified corporate chart showing the relationship of the Applicants to one another.

10. Fraser Papers owns all of the issued and outstanding shares of FPS Canada Inc. ("FPS Canada") and Fraser Papers Holdings Inc. ("Holdings"). Holdings owns all of the issued and outstanding shares of Fraser Timber Ltd. ("Timber") and Fraser Papers Limited ("Fraser Madawaska"). Fraser Madawaska is the sole member and manager of Fraser N.H. LLC ("Fraser Gorham").

11. FPS Canada acts as agent for Fraser Papers and manages the Company's pulp, paper and lumbermill assets in Canada. These assets owned by Fraser Papers include:

- (a) a sulphite pulp mill, a groundwood pulp mill and a biomass cogeneration power plant (the "CoGen Facility") in Edmundston, New Brunswick;
- (b) a hardwood pulp mill in Thurso, Quebec;
- (c) two lumbermills in Juniper and Plaster Rock, New Brunswick; and
- (d) a corporate office in Toronto, Ontario

12. Holdings is incorporated under the laws of the State of Delaware and holds the Company's investments in Fraser Madawaska and Timber, which are the Fraser Group's operating entities in the State of Maine, in the U.S.

13. Fraser Madawaska:

- (a) owns and manages the Company's paper operations in Madawaska, Maine;
 - (b) is the sole member of Fraser Gorham, a limited liability corporation incorporated under the laws of Delaware;
 - (c) is the sole member of Katahdin Services Company LLC ("Katahdin Services") which, on behalf of the Fraser Group, manages (but does not fund) the operations of Katahdin Paper Company LLC ("Katahdin Paper") an indirect, wholly owned subsidiary of Brookfield that owns a paper mill in Maine; and
 - (d) owns 10,000 convertible, term, preferred units of Katahdin Paper and also holds an option to purchase all common units of Katahdin Paper.
14. Fraser Gorham owns and operates a paper mill in Gorham, New Hampshire.
15. Timber owns and manages the Company's two lumbermills in Masardis and Ashland, Maine.

B. Management of the Applicants

16. The Board of Directors of Fraser Papers is currently comprised of five directors, including myself. Three of the directors are non-independent, as defined by the *Ontario Securities Act*, National Policy 58-201, given their relationship to the Company or the Company's major shareholder, Brookfield. The other two directors are independent.
17. There are common officers and directors for each of the other Applicants and those persons hold such role by virtue of their position on the senior management team of Fraser Papers.
18. It is expected that all existing management will remain in place during this restructuring and there is no intention to hire a chief restructuring officer or similar officer at this time.

C. Integration of Applicants and Center of Main Interest

19. The Applicants are of the view that the restructuring to be undertaken under the *Companies' Creditors Arrangement Act* (the "CCAA") will require a review of the operations of the Fraser Group as a whole and may involve a restructuring of certain businesses and the sale of the remaining businesses and

related assets. It is anticipated that this process will require a judicial proceeding and approval in the U.S., in view of the assets and operations located there.

20. The business of the Fraser Group is fully integrated including between the Canadian and the U.S. operations. The four lumbermills supply wood chips and biomass (bark and other wood fibre residuals), byproducts of the lumber manufacturing process, to the sulphite pulp mill in Edmundston, New Brunswick. The hardwood pulp mill in Thurso, Quebec supplies pulp to the Company's two paper mills in Madawaska, Maine and Gorham, New Hampshire. The pulp and energy operations in Edmundston, New Brunswick and the paper mill in Madawaska, Maine (collectively referred to as the "East Papers Operations") are physically connected, with pipelines joining the two plants across the international border between New Brunswick and Maine. Pulp and steam are produced at the Edmundston facilities and delivered by pipeline to the Madawaska paper mill, where specialty papers are manufactured. A diagram outlining the physical location and proximity of each of the Fraser Group's facilities is annexed hereto and marked as Exhibit "B".

21. The Applicants are of the view that the restructuring of the Fraser Group will be administered most efficiently through a single, centralized restructuring process. Such a process would likely minimize the cost of the restructuring, minimize the time necessary to effect the restructuring and thereby maximize the overall value of the assets and operations for all stakeholders.

22. It is contemplated that the CCAA proceeding in Canada will be the primary court supervised process for the restructuring of the Fraser Group. While the restructuring will be undertaken in Canada, the Applicants will seek an Order pursuant to Chapter 15 of the U.S. *Bankruptcy Code* to have this proceeding recognized as a foreign main proceeding in order to facilitate the implementation of matters in the U.S. that have been approved in the CCAA proceeding.

23. The Applicants are of the view that Fraser Papers' centre of main interest ("COMI") is Ontario. Its registered head office is in Toronto and all corporate, management, banking, and strategic functions are undertaken from its head office in Ontario.

24. In support of the Applicants' position that the COMI for the other Applicants is also Ontario:

- (a) all corporate strategic decision-making for the Fraser Group occurs at the Fraser Papers' head office, and the Chief Executive Officer and Chief Financial Officer have their primary business office in Ontario;
- (b) as CEO of Fraser Papers and Chairman of each of the other Applicants I am involved, along with other members of the senior management team, in all material decisions regarding the operations of all Applicants including the terms and conditions for any material contracts and all such decisions are directed from, made in or monitored from our offices in Ontario;
- (c) budgeting for each facility is approved at Fraser Papers' head office in Ontario;
- (d) human resource policy and administration, including certain human resource functions, pension plan administration and certain compensation and benefits functions are performed and located in Ontario;
- (e) all treasury management functions including a centralized cash management system and centralized banking arrangements for the Fraser Group are conducted from Fraser Papers' head office in Toronto;
- (f) financial reporting of the Applicants is done on a consolidated basis and the audited financial statements are prepared in Ontario;
- (g) investor communications functions are undertaken at the head office;
- (h) all corporate minute books for the Applicants are located and maintained in Ontario;

- (i) each Applicant has a bank account in Ontario with at least a small credit balance;
- (j) with the exception of a term loan made available to Fraser Papers by the Province of New Brunswick (the "N.B. Loan"), all credit facilities of the Applicants are with lenders who manage such facilities in Toronto, Ontario, and all loans are advanced to Fraser Papers as borrower;
- (k) the Board of Directors' meetings are held in Ontario; and
- (l) the location of the Company's major shareholder is in Ontario.

25. As the business operations of the Applicants are functionally integrated, there are a number of suppliers, creditors and other stakeholders of the Fraser Group that are common to several of the Applicants.

26. All credit facilities and loans advanced to the Fraser Group are advanced to Fraser Papers as borrower. However, with the exception of the N.B. Loan, all of the Applicants have directly or indirectly guaranteed those credit facilities.

27. In addition, as described in more detail below, there is a significant degree of integration in the cash management arrangements among the Applicants, with the companies borrowing and advancing funds within the Fraser Group as needed, further demonstrating the integrated operations of the Fraser Group and the necessity for dealing with the restructuring in a procedurally-consolidated manner. As the operations of the Fraser Group are managed centrally at the Fraser Papers level, the Applicants are of the view that Ontario is the most appropriate forum for overseeing the restructuring of the entire Fraser Group.

III. THE APPLICANTS' BUSINESS

28. The specialty papers business of the Applicants comprises two paper mills, one market pulp mill, two internal pulp mills, the CoGen Facility and four lumbermills in New Brunswick, Quebec, Maine and

New Hampshire. Fraser Papers has been in operation since the late 1800's and employed approximately 2,400 people in the U.S. and Canada as at December 31, 2008.

A. Principal Products

29. The principal products manufactured by the Fraser Group are paper, pulp and lumber.

(a) Paper

30. The Applicants' paper products can be grouped into six categories: specialty packaging, specialty printing, specialty high-bright groundwood, commodity free sheet, commodity groundwood and towel.

31. Specialty packaging papers are made to customer specifications, primarily for flexible packaging required for food products, and require a high degree of technical expertise. Specialty packaging papers are generally sold to manufacturing intermediaries (converters) who will manufacture a value added flexible package or bag through various processes based on end customer specifications. Certain specialty packaging papers require chemical treatment for moisture and grease resistance.

32. Specialty printing papers include a broad array of both coated and uncoated grades and include products that are used in thermal printing applications, label papers and for commercial printing purposes. These grades are characterized by narrow technical specifications and require unique manufacturing capabilities. Specialty printing grades are sold directly to customers or through paper merchants who have a well established distribution network. Thermal based papers are used for point-of-sale receipts, and lottery and gaming tickets. Label papers are used in a variety of packaging applications from bottling and cans and for labelling boxes, containers and luggage. Commercial printing papers are used for manuals, direct mail inserts and brochures. The Company's lightweight opaque papers are used for bibles, financial printing, pharmaceutical inserts and reference applications.

33. Specialty high-bright groundwood papers are used in commercial printing and publishing applications. These products have a blend of both groundwood and chemical pulp fibre that provide

comparable performance to traditional free sheet applications, but at a lower cost. Specialty high-bright groundwood papers are sold through merchants or directly to printers and publishers.

34. Commodity free sheet papers typically include book papers, off-set papers, tablet and envelope grades. These commodity papers are subject to significant competition from much larger paper producers due to their more generic specifications and lower technical requirements. In addition, prices for these grades tend to be more volatile than for specialty grades. Book papers are used in novels and trade books. Off-set papers, tablet and envelope papers are used in office applications.

35. Commodity groundwood papers are generally used in mass circulation publications such as directories, magazines, catalogues and advertising inserts. Commodity groundwood papers are generally sold through paper merchants and to printers and publishers.

36. Towel is primarily bleached and unbleached paper towel for the “away-from-home” market segment, typically restrooms in restaurants, airports, and other locations accessible by the public. This product is sold to converters through an agent.

(b) Pulp

37. The pulp mills are integrated with other parts of the Fraser Group’s operations, as the wood fibre in pulp is a fundamental component in the manufacture of paper. Production of sulphite and groundwood pulp from the Edmundston, New Brunswick facility are used exclusively at the Company’s Madawaska, Maine paper mill. The hardwood pulp, called northern bleached hardwood kraft pulp (“NBHK”) produced at the Thurso, Quebec pulp mill, in excess of the requirements at the Company’s paper mills in Madawaska, Maine and Gorham, New Hampshire is sold to customers in North America, Europe and Middle Eastern countries in Asia either directly or through agents.

38. NBHK pulp produced at Thurso, Quebec that is sold to external customers competes with similar product that is manufactured by suppliers in North America, Scandinavia, South America, Asia and other

regions. NBHK pulp is a commodity with competition essentially based on price with lesser emphasis on certain technical qualities of the product and service. Market demand is largely a function of global paper production rates in the principal markets of Western Europe, United States and Asia.

(c) *Lumber*

39. The Fraser Group produces softwood dimension lumber used in home building construction, renovation and repair. Lumber is a commodity and competition is based on price. The Applicants compete in a large, fragmented North American market that includes approximately one thousand domestic mills. Historically, demand has been cyclical and has been strongly correlated with new home building activity. Lumber is sold primarily to wholesale distributors, with some sales directly to home builders and lumber yards.

40. Wood chips and biomass are important byproducts of the lumber production process. The softwood chips from the Company's four lumbermills are a significant and secure source of wood fibre for the Edmundston pulp mill. The bark is used as a source of fuel for the CoGen Facility. In 2008, approximately 30% of the softwood chips required by the Edmundston sulphite pulp mill were supplied from the Applicants' four lumbermills, 55% were supplied from independent mills and 15% were produced at the internal chipping facilities at the Edmundston mill, albeit at a significantly higher cost.

41. Whole logs used in the production of groundwood pulp at Edmundston are (i) obtained under long term fibre supply agreements, (ii) harvested from the Applicants' crown licenced lands in New Brunswick and (iii) purchased from private land owners.

42. A chart providing an overview of the wood fibre flow in the production processes of the Fraser Group is annexed hereto and marked as Exhibit "C".

B. Facilities**(a) Paper Mills****Edmundston and Madawaska (East Papers Operations)**

43. The Applicants' East Papers Operations is its largest paper manufacturing facility. This is an integrated complex that is located on either side of the St. John River, representing the international border between Edmundston, New Brunswick and Madawaska, Maine. The Edmundston facility produces bleached softwood sulphite pulp and groundwood pulp which are delivered via pipeline to the Madawaska paper mill in slurry form. The CoGen Facility at the Edmundston plant produces electrical power that is sold under a long term supply agreement to the New Brunswick Power Corporation ("NB Power") and byproduct steam that is delivered via pipeline to the Madawaska paper mill.

44. The Madawaska paper mill currently has five paper machines in operation with broad capabilities to produce light weight, coated and uncoated specialty papers. Since 2007, three paper machines (out of a total of eight) have been permanently shut down at the Madawaska mill. The Madawaska mill has taken market related downtime in 2009 as a result of weak demand and low prices for its products.

45. In 2009, the Madawaska paper mill has received approximately 75% of its pulp requirement from Edmundston with the remainder purchased from Thurso and third parties.

46. Following the temporary shutdown of the Edmundston and Madawaska operations on June 8, 2009, as described below, most of the East Papers Operations are expected to resume and continue throughout this restructuring, with the exception of the Edmundston sulphite mill where further efforts are required to lower costs, as discussed below. The other operations may be required to operate at reduced capacity or subject to periodic downtime based on market demand for specialty paper.

Gorham

47. The Gorham paper mill currently has two paper machines that produce specialty printing and commodity free sheet papers and a third machine that produces towel products for the "away from home"

market segment. The Gorham mill currently purchases its hardwood kraft pulp requirements from Thurso and the balance of its pulp requirements from third parties. During 2008, the Company announced the shutdown of two paper machines at the Gorham mill, representing approximately 40% of its manufacturing capacity.

(b) Pulp Mills

Thurso

48. The NBHK mill in Thurso, Quebec produces pulp for sale to the Applicants' two paper mills and on the open market. Approximately 25% of the mill production in 2008 was specialty pulp for use in the manufacture of high quality printing and writing and decorative laminated papers. Approximately 40% of Thurso's pulp production was shipped to either Madawaska or Gorham in 2008; the balance is sold to third parties.

49. Wood is supplied to the Thurso mill in both whole log form and chip form with approximately 60% of requirements from whole logs and 40% from chips. Of the total fibre supply, approximately 35% is provided from timberland under Crown licence, with the remainder purchased from third party lumbermills, in the case of chips, or logs from private wood lots.

50. The Thurso pulp mill was closed indefinitely in early June, 2009, as described below.

(c) Lumbermills

Plaster Rock and Juniper, New Brunswick

51. The Applicants' lumbermills in New Brunswick produce dimension lumber for sale into the northeastern U.S. market and byproduct wood chips and biomass for use at the pulp mill in Edmundston. In 2008, 100% of the chips produced at the New Brunswick lumbermills were sold to the Edmundston pulp mill and represented about 10% of all chips used by the Edmundston pulp mill. Approximately 30%

of the sawlogs for the two New Brunswick lumbermills was harvested under Crown licence or purchased under long term fibre supply contracts, with the remainder purchased from private land owners.

52. Fraser Papers is completing a capital improvement project at the Plaster Rock lumbermill in order to modernize certain areas of the manufacturing process including the boiler, kiln and saw line. These improvements are expected to reduce costs and increase productive capacity. The budget for this project is CDN\$17.6 million, with funding provided to Fraser Papers through the N.B. Loan. The modernization project is on budget and is scheduled for completion by the end of June, 2009.

53. The lumbermills at Plaster Rock and Juniper are currently closed, due to lack of demand for lumber and low prices. The market factors reflect the depressed conditions in the U.S. housing construction market.

Ashland and Masardis, Maine

54. The lumbermills in Maine also produce dimension lumber for sale into markets in the northeastern U.S. The majority of the byproduct chips and biomass from the mills are sold to the Edmundston pulp mill, representing 20% of all chips consumed by Edmundston, while the remainder is sold to third parties. The mills obtain a portion of their log requirements under long-term fibre supply agreements with the remainder purchased on the open market.

55. The Applicants' lumbermill in Ashland is currently closed, due to the lack of demand and poor prices for lumber. The Masardis mill re-started on May 26, 2009 to process an existing inventory of saw logs, which is expected to take approximately eight weeks, at which time it is expected to be shut down on an indefinite basis. On June 8, 2009 the Company provided employees at the Masardis mill with sixty days' notice that the mill would be closing for market reasons effective August 7 (the sawmill) and August 14 (the planer mill).

C. Forest Resources and Crown Licenses

56. Access to an adequate source of timber is a critical requirement for an integrated lumber, pulp and paper business. Insufficient timber resources result in an inability to obtain a sufficient volume of wood chips to make pulp, thereby requiring a pulp producer to purchase its fibre from a third party.

57. Fraser Papers previously owned timberlands in New Brunswick and Maine that were sold in 2005 and 2006. In May, 2005, Fraser Papers sold its timberland in Maine to the Heartland Forest Group for net cash proceeds of \$78 million. In January 2006 the Company sold its freehold timberlands in New Brunswick to Acadian Timber Income Fund ("Acadian") for total proceeds of \$93.5 million in cash plus 3,613,780 securities that were convertible into units of Acadian, representing approximately 22% of the equity of Acadian on a fully diluted basis. In 2007 the Company sold its remaining interest in Acadian for net proceeds of \$38.4 million. Proceeds from these transactions were used to repay indebtedness and fund operating losses.

58. At the time of the sale of the timberlands, the Company entered into twenty-year fibre supply agreements whereby the right to purchase fibre (in an amount substantially equal to the volume previously obtained from these lands when they were owned) was retained. These fibre supply agreements provide approximately 36% of the round wood fibre used in the Applicants' operations in New Brunswick and Maine.

59. In addition to the fibre supply agreements, the Applicants have licences in New Brunswick on Crown forest lands equivalent in area to approximately 1.3 million acres, subject to certain allowances for annual cutting on these Crown lands. Crown licences held by the Applicants provide approximately 30% of the round wood fibre used in the Applicants' lumbermill operations.

60. When Fraser Papers sold the New Brunswick timberlands it entered into an agreement with Acadian, whereby Acadian provided management services relating to the Crown lands for a fee. This management agreement has a term equal to the term of the Crown licences, including renewal terms.

61. All forest operators on Crown lands are accountable for their activities on these lands under the Crown licences. The Provincial licences generally include provisions for royalty fees (or stumpage charges), levy fees for reforestation and the development and care of the forests and sub-licencing requirements for certain amounts of the annual allowable cut to third parties. The Provinces have various legislative programs governing utilization of their forest resources which change from time to time, resulting in changes in land tenure and cutting rights. The major tenure agreements with the Provinces are for terms of 20 to 25 years, with provisions for renewal thereafter.

62. The Applicants' access to timber on Crown lands is subject to an allocation received from the provincial government. In New Brunswick, Fraser Papers consumes approximately 28% of the Province's fibre market (sawlogs, pulpwood, chips from sawmills or forest biomass) but receives only 9% of the total Crown wood allocations. The Applicants have been in negotiations with the Province of New Brunswick for an increased allocation of the Province's fibre supply to allow the Applicants to have access to a secure wood fibre supply that can be harvested at economies of scale. On June 5, 2009 the Province agreed to provide the Applicants with an increased fibre allocation, subject to certain terms and conditions as described in further detail below.

D. Energy

63. The Applicants require significant quantities of power to operate the various manufacturing processes at each of the mills. Fraser Papers purchases all of its power for the Canadian mills from the provincial power utilities in Quebec and New Brunswick. With the objective of establishing a competitive advantage in energy costs at the East Papers Operations, Fraser Papers' predecessor Fraser Inc. built a 38 megawatt CoGen Facility on the Edmundston site in 1995 at a cost of approximately CDN \$120 million.

64. The CoGen Facility burns approximately 800,000 tons of biomass annually to produce steam for the East Paper Operations and electricity which is sold to NB Power.

65. When the CoGen Facility was built, Fraser Papers entered into a thirty-year power purchase agreement with NB Power dated May 16, 1995 (the "CoGen Agreement") whereby Fraser Papers supplies all of the electricity produced at the CoGen Facility to NB Power. The CoGen Agreement was structured such that Fraser Papers receives two monthly payments over the term of the agreement: (i) a fixed capacity payment, and (ii) a variable payment for each unit of electricity produced. Fraser Papers negotiated a higher capacity payment in the early years of the contract, under an amortizing schedule of payments. These higher capacity payments represented, in effect, an advance on future capacity payments and Fraser Papers was required to post a letter of credit with NB Power to secure performance under the long term contract. At this time, the letter of credit is approximately CAD \$23 million and utilizes a significant portion of Fraser Papers' borrowing capacity under its revolving credit facility with CIT. A copy of the CoGen Agreement is annexed hereto and marked as Exhibit "D".

66. Under the CoGen Agreement, the purchase price for the units of electricity generated and sold to NB Power was to increase each year based on changes to the Consumer Price Index ("CPI"). Since 1997, this adjustment has resulted in a 13% increase in the price paid to Fraser Papers for the electricity produced. However, over that same time period the cost of biomass fuel used to generate the electricity has increased by approximately 300%. By 2009, this had reduced the anticipated operating margins of the CoGen Facility by approximately CDN\$15 million per year.

67. The combined effect of the reduced operating margin for power sold under the CoGen Agreement, coupled with the high price paid by the Applicants for power in the Province of New Brunswick (relative to the price paid for power in other Provinces, including Quebec and British Columbia) has resulted in a significant competitive disadvantage for the Applicants. The Applicants' East Papers Operations purchase approximately CDN\$30 million of power for its operations annually from NB Power.

68. The Applicants have requested amendments to the CoGen Agreement and to date have received relief in one area that will provide the opportunity to reduce costs and improve operating efficiency, as discussed below. In my opinion, more relief is necessary and this has been the subject of ongoing discussions with NB Power.

E. Employees

69. As at December 31, 2008 Fraser Papers employed approximately 2,400 people at its eight manufacturing locations in Canada and the U.S. Approximately 70% of these employees are represented by labour unions. One of the collective agreements has already expired and three other collective agreements are due to expire this year.

70. The Communication, Energy and Paper Workers Union ("CEP") represents approximately 660 bargaining employees at the Edmundston and Thurso mills. The United Steel Workers ("USW") represents employees at Madawaska and Gorham. Approximately 150 lumbermill bargaining employees at Plaster Rock are represented by the New Brunswick Regional Council of Carpenters, Millwrights and Allied Workers ("CMAW").

71. A five year Collective Agreement with the CEP in Edmundston was ratified in May 2005 and expires June 30, 2009. A six year agreement was reached with the USW in 2003 for employees in Madawaska, and expires October 31, 2009.

72. In 2006 a four year agreement covering approximately 300 employees at the Thurso pulp mill was ratified with the CEP and expired April 30, 2009. Discussions to establish a new agreement have started. In a meeting held on May 27, 2009, the employees voted favourably to amend the terms of the severance payments from six weeks after closure to twenty-two weeks, to provide for additional time to find a solution for the situation at the mill.

73. In 2008 a two year extension was negotiated to the Gorham labour agreement with the USW, which was otherwise set to expire on May 31, 2008. The current Collective Agreement with the USW for the Gorham facility expires May 31, 2010 and provides for a one time profit sharing of 10% of earnings before interest, taxes, and depreciation ("EBITDA") in excess of \$8 million in the twelve months prior to May 31, 2010.

74. The existing four year Collective Agreement with the CMAW at the Plaster Rock lumbermill expired January 31, 2009. A negotiated settlement was reached on a new five year agreement with the bargaining team representing the unionized employees but was rejected in a vote held early in 2009. The Company's offer was subsequently withdrawn and no further negotiations have taken place.

75. The Applicants' lumbermills at Juniper, New Brunswick and Ashland and Masardis, Maine are not subject to any collective agreements.

76. The Applicants have been involved in discussions with each of the unions regarding the terms and concessions required to achieve a successful restructuring of the Applicants' business. To date those discussions have not resulted in any agreements.

F. Pension Plans, Benefits and Funding Issues

77. The Applicants sponsor five defined benefit pension plans in three jurisdictions: two registered in the Province of New Brunswick (the "NB Hourly Plan" and the "NB Salaried Plan"), two registered in the Province of Quebec and one in the U.S. (individually, the "Pension Plan" and collectively, the "Pension Plans"). Fraser Papers Inc. is the plan sponsor and CIBC Mellon is the trustee for each of the four Pension Plans in Canada. Holdings is the plan sponsor and BNY Mellon is the trustee for the Pension Plan in the U.S. The two Pension Plans registered in Quebec are administered by pension committees comprised of representatives from Fraser Papers and representatives from the union or the salaried employees, as the case may be. In total, there are 2,997 retirees and 1,412 active employees who are members of the Pension Plans.

78. In addition, the Applicants have one non-registered, unfunded SERP in Canada and two unfunded SERPs in the U.S. The obligations under these SERP's are "pay-as-you-go". The Applicants also sponsor a registered defined contribution pension plan in Canada and one in the U.S.

79. Based on information received by the Company from its actuaries for the purpose of preparing the annual audited financial statements, and in accordance with GAAP, the Applicants' accrued pension benefit obligations in its five defined benefit Pension Plans and SERP's exceed the value of the Pension Plan assets by approximately \$171.5 million as at December 31, 2008.

80. In 2008, actuarial valuations as at December 31, 2007 were filed for the two registered Pension Plans in New Brunswick and one registered Pension Plan in the U.S. Actuarial valuations as at December 31, 2008 are required to be filed for the NB Hourly Plan and the one US plan during 2009. Actuarial valuations as at December 31, 2009 are required for the two registered Pension Plans in the Province of Quebec. The NB Salaried Plan requires an actuarial valuation report to be prepared as at December 31, 2010. These actuarial reports set out the annual cash contribution requirements for each of the Pension Plans.

81. Recent changes in global capital markets and borrowing rates has affected the funded status, funding requirements and pension expense associated with the Applicants' Pension Plans. Based on current market conditions, regulatory filing requirements and preliminary estimates in relation to the actuarial valuation reports as at December 31, 2008, the Applicants expect that they will be required to make special payments in respect of unfunded going concern and solvency deficiencies (the "Pension Deficits") with respect to the Pension Plans in the amount of \$13.5 million in 2009. This is in addition to \$3.3 million required to be paid in 2009 on account of normal cost contributions to the Pension Plans. The Applicants have no ability to pay the combined amount at this time.

82. Based on current market conditions, regulatory filing requirements, preliminary estimates in relation to the actuarial valuation reports as at December 31, 2008 and the last filed actuarial valuations,

the Applicants expect that contributions required to be paid to the defined benefit components of the Pension Plans in 2009 will almost double in 2010. The Applicants estimate that they will be required to pay an average of \$34.7 million per year for the years 2010 to 2013 to fund the Pension Deficits and a further \$5.1 million for normal cost contributions (for current service of members) to the Pension Plans in 2010. The Applicants expect that they will be unable to satisfy these combined funding obligations.

83. The Applicants fund post-retirement health care benefits costs on an ASO (administrative services only) and insured basis. As at December 31, 2008, the present value of the accrued benefit obligations of these post-retirement health care benefits was \$46.8 million. In 2008, the Company paid \$3.4 million to provide these post-retirement health care benefits.

84. Many of the health and related benefits payable by the Applicants to active and retired employees in Canada are funded through a Health and Welfare Trust, established by Agreement and Declaration of Trust dated January 1, 1988. A Health and Welfare Trust is a means by which trustees can receive contributions from employers and employees, where applicable, and provide, either through direct payment of benefits or through the payment of insurance premiums, the health and welfare benefits that the employer has agreed to provide.

85. The Health and Welfare Trust is a true trust arrangement with four individuals (Jean Paul Fournier, Linda Pellizzari, William Peterson and Carole Savage) currently acting as Trustees. Fraser Papers has no interest in the monies in the trust unless and until all benefits payable at any time to beneficiaries have been paid in full. At this time there is a balance of approximately \$1 million in the trust, which amount, in the ordinary course of business of the Applicants, would fund benefits payable to active and retired employees for a period of approximately four to five months. In view of the existing balance in the trust, the Applicants intend to make no further payments into this trust after the date of filing until such time as the funds are fully depleted through the payment of benefits to employees. Once these funds are depleted, the company will contribute sufficient funds to the trust in order to meet its

obligations under its retiree and employee benefit plans as they may exist at that time, subject to the provisions of the Initial Order and the DIP Financing (as hereafter defined).

86. Fraser Madawaska is party to a Deferred Compensation Plan and Deferred Compensation Plan Trust Agreement in the U.S., with Mellon Bank N.A. acting as Trustee. Participation in the program was curtailed some time ago, although two current employees and seven retired employees are Participants (as that term is defined in the agreements). The program was a means of deferring the tax payable on compensation, with Participants receiving payments either as a lump sum or over a number of years following their retirement.

87. Pursuant to the agreements referred to in the immediately preceding paragraph, the Participants have no beneficial interest in the monies in the trust, the Trustee is required to cease making payment of benefits to the Participants if Fraser Madawaska becomes insolvent, and upon the insolvency of Fraser Madawaska any money in the trust must be held by the Trustee for the benefit of Fraser Madawaska's general creditors. The Applicants intend to immediately notify the Trustee of Fraser Madawaska's insolvency and the commencement of this proceeding. There is approximately \$100,000 currently held by the Trustee.

G. Hedging Activities

88. Almost all of the Applicants' sales are denominated in U.S. dollars while a significant portion of the operating costs are incurred in Canadian dollars. Accordingly, financial results for the Applicants are highly sensitive to changes in the exchange rate for Canadian and U.S. dollars.

89. From time to time the Applicants hedge a portion of their net foreign currency-denominated cash flows using foreign exchange forward contracts or other derivatives. The Applicants enter into foreign exchange forward contracts, or other hedging contracts, to fix or "lock-in" the future foreign exchange for a portion of its Canadian dollar denominated costs thus reducing the risk of foreign exchange fluctuations negatively affecting the operations and cash flows of the Company.

90. The Applicants also hedge the net Canadian dollar denominated monetary liabilities on their balance sheet, as the reporting currency for the Company is in U.S. dollars and the Company has net liabilities on the balance sheet that are denominated in Canadian dollars.

91. Brookfield has provided the Fraser Group with a facility that enables the Applicants to enter into forward foreign exchange contracts as part of the Company's hedging activities, with the maximum "notional" value of derivatives outstanding at any given time being no more than \$350 million. As at May 2, 2009 the Company had \$32.7 million in foreign exchange contracts outstanding as a hedge against certain Canadian dollar-denominated net monetary liabilities. In addition, as at May 2, 2009 the Company notionally had \$160.7 million in net forward foreign exchange contracts outstanding under this facility as a hedge against future net Canadian dollar cash flows.

92. From time to time, the Fraser Group also enters into lumber forward contracts to fix the price for a portion of its future lumber sales. At this time, the Applicants have no outstanding future contracts for lumber.

H. Financing Activities in 2008

93. During 2008, the Applicants required \$73.0 million to fund cash operating losses, meet pension funding obligations and capital expenditures necessary to sustain the business. The Applicants (i) raised CDN\$60 million of equity capital from a rights offering to shareholders that was fully underwritten by Brookfield, (ii) expanded availability under the existing revolving term facility with CIT Business Credit Canada Inc. ("CIT") by \$25 million which was guaranteed by Brookfield, and (iii) secured an additional \$25 million loan under a new one year term facility with CIBC that was also guaranteed by Brookfield.

94. In addition, the Province of New Brunswick agreed to provide a CDN\$40 million six year term loan (previously defined as the N.B. Loan) with proceeds that were restricted to the financing of capital upgrades at the Edmundston pulp mill and the Plaster Rock lumbermill. At June 16, 2009, borrowings under the N.B. Loan were \$25.9 million (or CDN\$29.3 million).

95. The cash realized from these debt facilities and the rights offering provided the Applicants with immediate liquidity in 2008 but this was not sufficient to avert the financial crisis that the Applicants now face.

I. Key Factors Affecting the Business

96. The Fraser Group's operations and financial results are influenced by a number of factors, many of which are beyond the Applicants' control. The five most significant factors, in no particular order of importance, are: (i) the cyclical nature of the business; (ii) the competitive environment of the industry; (iii) product demand; (iv) cost control; and (v) foreign currency risk.

97. Other risks to the Fraser Group's business include those of general application to all capital intensive manufacturing and distribution businesses in the forest product sector. They include:

- (a) market issues such as the dramatic decline in lumber sales due to a collapse in the U.S. housing industry and a drop in global economic activity, which has reduced demand for market pulp;
- (b) the availability of, and prices for, wood fibre in its various forms including saw logs, pulp logs, softwood chips, and biomass;
- (c) the effect of U.S. pulp industry tax subsidies (often referred to as "black liquor tax credits"), as described below;
- (d) the general decline in demand for paper grades manufactured by the Applicants reflecting the lower economic activity in North America;
- (e) the effect of environmental litigation, regulatory developments and aboriginal land claims on timber supply and operations;
- (f) the effect of environmental and other government regulations on the cost of doing business;
- (g) an increase in the cost of purchased energy including oil and other raw materials, leading to higher manufacturing costs, thereby reducing operating margins;

- (h) trade restrictions regarding trade in softwood lumber products between the U.S. and Canada;
- (i) operational risks for which adequate insurance may not be available;
- (j) mill shutdowns for unscheduled maintenance or lack of demand;
- (k) labour disruptions;
- (l) insufficient capital to maintain the operating facilities; and
- (m) financial obligations including long term debt, guarantees, indemnities and pension obligations.

98. The manufacture of pulp and paper is a capital intensive business requiring a significant investment in large machinery and equipment. The geographical breakdown of property, plant and equipment at the end of 2008 was 47% in the United States and 53% in Canada. A significant portion of the Applicants' operating costs are incurred in Canadian dollars, while almost all of the Applicants' sales are transacted in U.S. dollars. Therefore, an increase in the Canadian dollar relative to the U.S. dollar increases the Applicants' operating costs relative to sales, which reduces the operating margins and the cash flow available to fund the Applicants' operations. As a result, the significant fluctuations in relative currency values over the past twelve to eighteen months has negatively affected the cost competitiveness of some of the operating facilities, the value of the Applicants' foreign investments and ultimately the financial position of the Fraser Group.

99. In addition, certain U.S. pulp and paper companies are currently benefiting from a significant tax credit available to those who operate kraft pulp mills. The original legislation, entitled the *Safe, Accountable, Flexible, Efficient Transportation Equity Act*, enacted in 2005, was designed to encourage the use of alternative fuels, like ethanol, to reduce the consumption of diesel fuel in highway vehicles. In late 2008 certain U.S. pulp mills identified a loophole in this legislation that would enable them to receive

a tax credit by adding diesel fuel to "black liquor", which has been burned as a fuel in recovery boilers in pulp mills for many years. Black liquor is a residue byproduct of the traditional kraft pulping process.

100. The Applicants believe that this tax credit has produced the opposite effect to the intended result, as pulp operators have begun to add diesel fuel that was not previously required or used in their pulping process. Industry analysts have estimated that this tax credit is now widespread in the U.S. pulp industry, and is subsidising the oversupply of kraft pulp and the paper manufactured from it during a time when the market is already weak. The Applicants' estimate that the black liquor tax credit is worth between \$150 to \$200 per ton of pulp produced, which translates to a savings of 30 to 40 % of the cost of production. The Applicants are not able to take advantage of the tax credit, which creates a significant competitive disadvantage for the Applicants relative to U.S. pulp producers who can claim the tax credit.

101. The Applicants were able to address the combined negative impact of these factors through the financing activities described above and by reducing working capital levels to cover losses and fund required pension and other obligations. The Fraser Group is now experiencing a severe liquidity crisis and has immediate and pending financial obligations that it is unable to pay.

J. Bank Accounts and Cash Management

102. The Applicants operate a centralized cash management system. Daily financial requirements of the Applicants are funded by a revolving operating facility with CIT that is provided to Fraser Paper as borrower, with an unlimited guarantee from each of the other Applicants.

Funding of Canadian Operations

103. Fraser Papers maintains Canadian dollar and U.S. dollar corporate bank accounts in Toronto to facilitate the funding requirements for the entire Fraser Group. Canadian dollar and U.S. dollar accounts are also maintained by Fraser Papers for each of the Canadian facilities (Edmundston, Thurso, Plaster Rock and Juniper) to fund mill operations and receive tax refunds. The mill accounts are funded from

Fraser Papers' Canadian dollar or U.S. dollar corporate account, depending on whether the required disbursements from the mill account are denominated in Canadian or U.S. dollars. Fraser Papers has a Canadian lockbox account in Toronto to receive all deposits for Canadian dollar denominated sales made by the Canadian mills. Fraser Papers also maintains a lockbox account in the U.S. to receive deposits for U.S. dollar denominated sales. In addition to these primary cash management accounts, Fraser Papers maintains three accounts which are used as impressed accounts for payroll disbursements to employees and other miscellaneous activity.

104. The primary bank accounts for each mill are swept daily to Fraser Papers' corporate account, which provides the necessary funds for daily disbursements. This activity leads to interdivisional account balances between the various divisions. These balances are not paid but allowed to accumulate, and are then cleared infrequently. These balances eliminate at the legal entity level for divisions within Fraser Papers.

Funding of U.S. Operations

105. Similar banking arrangements exist with respect to the plants owned and operated by the U.S. subsidiaries of Fraser Papers. Holdings maintains a Canadian and U.S. dollar corporate account in the U.S. Separate U.S. dollar bank accounts are maintained for each of the mills in that jurisdiction (Fraser Madawaska, Fraser Gorham, and Timber) to fund disbursements relating to that mill. The Applicants' U.S. operations are funded in part from the receipts generated from daily operations and these receipts are used to fund their disbursements, both to third parties and to Fraser Papers. These cash receipts are deposited to three lockbox accounts that are controlled by Fraser Madaawaska and Timber, to receive deposits for all U.S. sales of the U.S. Applicants. Any shortfall or excess cash in each of the U.S. Applicant's accounts is swept to the Holdings' corporate account. Holdings will generally use any excess funds to repay amounts owing to Fraser Papers. Any shortfall in the Holdings corporate account will be funded by Fraser Papers as described below.

106. Holdings, Fraser Madawaska and Timber also have bank accounts in Canadian dollars to fund disbursements in this currency. Similar to the U.S. dollar accounts, any shortfall or excess in the Fraser Madawaska or Timber accounts is swept to the Canadian dollar Holdings' account which, in turn, is funded by the U.S. dollar account.

107. Each of Timber, Fraser Madawaska, and Fraser Gorham also have bank accounts in Canada to facilitate any cash flows that may occur directly between Fraser Papers and its indirect, wholly-owned subsidiaries. These accounts are rarely used, as all funding of the U.S. operations occurs through intercompany loans between Fraser Papers and Holdings.

108. Funding between Fraser Papers and Holdings is effected through an inter-company revolving working capital line note agreement dated July 20, 2005 and amended in August, 2007 (the "Intercompany Note Agreement"), a copy of which is attached hereto and marked as Exhibit "E". Holdings owed Fraser Papers approximately \$71.8 million as at May 2, 2009 under the Intercompany Note Agreement.

109. The amount outstanding under the Intercompany Note Agreement decreases as any excess cash in Holdings is paid to Fraser Papers. The amount outstanding under the Intercompany Note Agreement increases if Fraser Papers is required to fund any cash shortfalls in Holdings.

110. Each of the Applicants has their own accounts payable function. Fraser Madawaska performs the accounts payable function for the Madawaska, Maine, Edmundston, New Brunswick and Portland, Maine locations.

111. It is anticipated that the Fraser Group will continue to use the existing cash management system and will continue to maintain the bank accounts and funding arrangements already in place. This approach will minimize any disruption to the business operations of the Fraser Group as it seeks to restructure its affairs. CIT and Brookfield, who have each indicated that they will make DIP Financing

(as hereafter defined) available to the Applicants if the Initial Order is granted, have confirmed that they support the continued operation of the existing cash management system during the CCAA proceedings.

IV. CURRENT STATUS OF THE COMPANY

A. Financial Status

112. Fraser Papers' annual audited financial statements are prepared on a consolidated basis and include each of the other Applicants. The most recent audited statements are for the fiscal year ending December 31, 2008, a copy of which is annexed hereto and marked as Exhibit "F".

113. The Applicants have also prepared consolidating financial statements for the Fraser Group as at May 2, 2009, a copy of which is annexed hereto and marked as Exhibit "G".

114. On a consolidated basis the Fraser Group has experienced negative EBITDA for three consecutive years, including negative EBITDA of \$33.6 million in 2008 and \$41.9 million in 2007. The Fraser Group had negative EBITDA of \$11.8 million in the first quarter of 2009.

a) Indebtedness to Lenders

115. Loans have been provided to Fraser Papers by each of CIT, CIBC and the Province of New Brunswick. Brookfield has guaranteed certain of these loans. In addition, Brookfield has provided Fraser Papers with a facility in the notional amount of \$350 million to facilitate the Applicants' foreign currency hedging activities, as discussed above. The amounts owing as at May 2, 2009, the date of the most recent internal financial statements, and the security or guarantees held by each lender are as follows:

<u>Lender</u>	<u>Authorized Principal Amount (Outstanding Amount)</u>	<u>Guarantees or Security Held</u>
CIT	\$115M (\$60M)	Unlimited guarantee from each of the other Applicants; first charge over inventory and accounts receivable of each Applicant. \$25M of the outstanding amount is guaranteed by Brookfield.
CIBC	\$25M (\$25M)	None from the Applicants. \$25M of the amount owing to CIBC is guaranteed by Brookfield
Province of New Brunswick	CDN\$40M (CDN \$29.3M)	First charge over fixed assets in New Brunswick and second charge on inventory and accounts receivable in New Brunswick
Brookfield	\$50M in guarantees above, plus any exposure under hedging facility.	Guarantees and security over all assets granted by each Applicant in favour of Brookfield. Security is subordinate to CIT and Province of New Brunswick.

116. Other than in respect of equipment leases, purchase money security interests or similar arrangements, and specific agreements involving (i) Export Development Corporation for the refund of softwood lumber deposits; and (ii) Royal Bank of Canada in respect of a cash collateral agreement relating to a former employee's pension proceeds, no other parties have a registered security interest against any of the Applicants in Ontario, Quebec or New Brunswick. Summaries of searches conducted under the *Personal Property Security Act* against each of the Applicants in the Provinces of Ontario and New Brunswick and equivalent searches conducted in Quebec are annexed hereto and marked as Exhibit "H".

117. Similarly, other than in respect of equipment leases, purchase money security interests or similar arrangements, no other parties have a registered security interest against any of the Applicants in Delaware, Maine or New Hampshire. Summaries of searches conducted pursuant to the *Uniform Commercial Code* in respect of each of the Applicants in Delaware, Maine and New Hampshire are annexed hereto and marked as Exhibit "I".

118. The amount outstanding under the revolving facility provided by CIT includes approximately \$40 million in letters of credit issued by CIT at the request of the Applicants. These include LCs totalling approximately \$1.7 million in favour of certain trade suppliers, an LC for approximately CDN\$23 million in favour of NB Power for any potential future liquidated damages under the CoGen Agreement, three LCs totalling approximately \$3.7 million to secure environmental obligations in respect of a U.S. landfill site in the State of Wisconsin that the Fraser Group no longer owns (the "Wisconsin Landfill") and \$14.4 million to secure potential workers' compensation obligations in the U.S.

119. As detailed below, Brookfield is prepared to provide DIP Financing (as later defined) to the Applicants during this restructuring process and CIT has also indicated that it is prepared to continue to extend credit to the Applicants to support the Applicants' efforts to restructure through a CCAA proceeding, in each case in accordance with the form of Initial Order sought by the Applicants.

(b) Other Liabilities

120. As at May 2, 2009, the most significant liabilities of the Applicants, other than their indebtedness to the lenders described above, are as follows:

	(\$millions)
Trade Creditors	\$74
Environmental Costs (net present value of projected future landfill expenses)	\$11.2
Other Liabilities	<u>\$0.2</u>
	\$85.4

121. In addition, the net obligations associated with the Applicants' Pension Plans, SERPS, and retiree benefit plans as at December 31, 2008 (as determined in accordance with GAAP) total \$218.3 million.

122. The Applicants are unable to pay these liabilities generally as they become due and they are insolvent. In addition, the above schedule does not include amounts relating to termination or severance obligations payable under any statute, collective agreement or otherwise. As certain mills are currently

shutdown and may be for an extended period of time, those liabilities may be substantial and the Applicants have no ability to pay such amounts at this time.

123. Certain of the Applicants are also parties to litigation or arbitration that is pending or has been threatened in Canada and the U.S. The Applicants are not able to estimate the likely outcome or quantum of any potential liability at this time, but will review these matters with the Monitor as part of this proceeding.

B. Inter-Company Accounts

124. Due to the manner in which the Fraser Group operates as an integrated business and the existence of a centralized cash management system, there are significant inter-company amounts owing among the various members of the Fraser Group at any given time. The Applicants propose to have the Monitor report on the intercompany amounts as part of this proceeding.

125. The Fraser Group uses intercompany accounts to manage activities between its various locations, and these activities are recorded on a location (rather than a legal entity) basis. For example, the Canadian operations of Fraser Papers consist of five locations (Toronto, Thurso, Edmundston, Plaster Rock and Juniper). General ledgers are maintained for each to record all activity relating to that group. The intercompany activities among the various operations can be broadly grouped as: (i) the purchase of goods (pulp, power, steam, chips and biomass) manufactured by one mill and sold to another; (ii) allocation of services paid by one operation but charged to another; (iii) other miscellaneous activity between locations, and (iv) daily movement of cash between individual mill and corporate bank accounts, as described below.

Purchase of Goods

126. The largest intercompany transactions relate to the sale of pulp manufactured by the Edmundston and Thurso pulp mills to the Applicants' U.S. paper mills in Madawaska and Gorham. In addition, the Edmundston mill sells power and steam to the Madawaska paper mill to support its operational

requirements. The Madawaska mill is heavily reliant upon the Edmundston mill for its steam, power and certain kinds of pulp, making the Edmundston facility a critical supplier to the Madawaska mill.

127. The Fraser Group's lumbermills in New Brunswick and Maine generate byproduct chips and biomass in the manufacture of dimension lumber. These byproducts are sold to the Edmundston pulp mill as raw materials to support the production of pulp (chips) and power or steam (biomass).

128. Each month the resulting intercompany receivables and payables are transferred from the local mill ledgers to the corporate ledger maintained for the Canadian and U.S. operations (FPS Canada as agent for Fraser Papers in respect of the Canadian operations and Fraser Madawaska for the U.S. operations). For example, on a monthly basis Edmundston's receivable from Madawaska for the sale of pulp, power and steam is transferred to FPS Canada, which maintains the corporate general ledger for the Canadian operations. Similarly, the Madawaska payable to Edmundston is transferred to the corporate Fraser Madawaska general ledger. The resulting balances between the Canadian and U.S. corporate accounts are cleared monthly, as described below.

Allocation of Services

129. There are a number of services or costs that are managed centrally by the Fraser Group's head office, which are then allocated to the individual mills to reflect their appropriate share of benefits received. These items are summarized below and are allocated to the mills by way of intercompany charges on a monthly, quarterly or annual basis:

- (i) Insurance – insurance premiums are centrally negotiated and paid and each operation is allocated their share of various insurance policies based on insured values or sales, depending on the nature of the policy
- (ii) Letter of Credit ("LC") – letter of credit standby fees are paid centrally and allocated to each operation based on the issuance of mill specific LCs
- (iii) Pension and OPEB expenses – are calculated centrally and allocated to each operation based on based on plan members and retirees attributable to each operation

- (iv) Workers' compensation – benefits are paid centrally and allocated to the operations based on actual claim payments
- (v) Procurement and research – the costs associated with centralized functions are allocated to mills based on estimated (procurement) and actual (research) time spent on specific mill needs
- (vi) Hedging gains/losses – realized gains or losses on hedging programs (foreign exchange and commodity) are received or paid centrally and are allocated to mills based on their actual Canadian dollar denominated cash flows or lumber shipments as the case may be.

130. In addition, there are services managed at the mill level that benefit one or more other locations.

These actual costs are charged or allocated to other mills by way of intercompany accounts and can be summarized as follows:

- (i) services provided by Edmundston to Thurso, Plaster Rock and Juniper
 - certain employee benefits (Blue Cross, workers' health and safety)
 - information technology services
 - medical services
- (ii) services provided by Madawaska to Edmundston and Gorham
 - information technology services
 - medical services (Edmundston only)

Miscellaneous Charges

131. There are a number of one-time and recurring charges that are allocated between the various operations to reflect an appropriate allocation of costs. Some of the larger or recurring transactions are as follows:

- (i) Payroll
 - Generally payroll at each location is aligned with staff at that location, but when staff are seconded or transferred to another location, payroll adjustments are corrected by intercompany charges.
 - Edmundston's weekly payroll is funded from the corporate FPS Canada account instead of its local bank account. The cost is allocated to Edmundston through an intercompany charge.
- (ii) Payments

- A number of significant Canadian suppliers request that payment be made by wire transfer. As wire transfers can only be processed centrally, payments are made from the corporate FPS Canada bank account and charged to the respective mill through an intercompany entry.

(iii) Canadian Sales

- To ease administration, paper sales to Canadian customers are transacted as an initial sale by the U.S. paper mill (Madawaska or Gorham) to the Edmundston mill. The Edmundston mill then sells the paper to the customer, but is charged for the purchase of goods through intercompany accounts.

(iv) Temporary transfers of goods and services

- On occasion a mill may provide additional services such as storage or training, or lend equipment to another location on a one-time or temporary basis. To reflect the use of these goods or services, charges are posted to the intercompany accounts of these mills.

Banking, Clearing and Accounting

132. Local bank accounts for each mill are “zero balanced” daily and cleared to the corporate head office bank accounts. Under this process, daily mill disbursements are funded by the corporate accounts. Canadian bank accounts are cleared to a Fraser Papers’ account and U.S. accounts are cleared to a Fraser Holdings account. The offsets to these transfers are intercompany liabilities between the respective entities. These intercompany balances are not cleared regularly and are allowed to accumulate as described below.

133. Cash requirements of the U.S. operations are funded by the Intercompany Note Agreement between Fraser Papers and Fraser Holdings, as described above. As such, if net cash is required by one of the U.S. subsidiaries to pay third party suppliers or pay Canadian purchases from the previous month, it is borrowed by Fraser Holdings from Fraser Papers through the Intercompany Note Agreement. Fraser Papers, as needed, will borrow the necessary funds from its revolving facility with CIT.

134. Monthly mill balances are transferred to the corporate ledgers maintained by FPS Canada (for the Canadian operations) and Fraser Madawaska (for the U.S. operations). Balances due and from operations within each respective country are not paid but allowed to accumulate, subject to infrequent clearing. The

balances among the Canadian operations are effectively offset, as they are all owned by the same legal entity. As the U.S. operations are owned by separate legal entities, they are not offset but effectively eliminated when consolidated financial reporting is prepared for the Fraser Group.

135. Balances due between Canadian and U.S. operations as a result of the purchases of goods or services are paid in cash monthly in the month following the date of the transaction.

136. Intercompany balances are presented in the Applicants' internal financial reporting as balances due between related parties, which eliminate upon consolidation.

C. Causes of Insolvency

137. The Applicants have not generated positive cashflow from operations for three consecutive years. Negative cash flow from operations (prior to changes in non-cash working capital) equalled \$65.4 million and \$55.5 million in 2007 and 2008 respectively, combined with a further shortfall of \$9.7 million in the first quarter of 2009.

138. During the first quarter of 2009, the Company funded its cash flow shortfall through the reduction in working capital of \$34.2 million, principally through the sale of finished goods inventory. The Company no longer has the ability to finance its cash flow shortfall.

139. The aforementioned cash flow shortfalls are being driven by a sharp deterioration at the Company's pulp operation at Thurso, Quebec, continuing losses from its lumber operations and are only partially offset by the turnaround in its specialty papers business. In particular:

- (a) a collapse in demand and the market price for hardwood pulp led to EBITDA losses of \$10.7 million in 2008 from a break-even situation in 2007. In the first quarter of 2009, the Company lost a further \$8.7 million in EBITDA at its pulp mill in Thurso, Quebec. On June 1, 2009, the Company indefinitely closed the Thurso pulp mill. The outlook for hardwood pulp remains poor and the situation has been exacerbated by the impact of the black liquor tax credit, referred to above;

- (b) continuing operating losses in the Company's four lumbermills of \$22.0 million and \$13.2 million in 2007 and 2008 respectively, reflect market conditions for dimension lumber used in housing construction and renovation. In the first quarter of 2009 these lumbermills had a further operating loss of \$4.1 million. As the outlook for the U.S. home building industry remains poor, the Company does not expect an improvement in the demand or price for its lumber. The Company's four lumbermills produced at only 16% of capacity during the first quarter of 2009; and
- (c) improvements in the financial results at the Company's specialty papers business have not been able to offset losses in its pulp or lumber operations. In the first quarter of 2009, the Company reported EBITDA of \$1.7 million from its specialty paper operations, following losses of \$9.7 million and \$19.7 million in 2008 and 2007, respectively. These improvements reflect achievements in product development and sales mix, operating efficiency and productivity, and energy efficiency.

140. Under the current collective agreement, two severance payments of \$3.9 million each to unionized employees at the Thurso pulp mill are due on November 9, 2009 and December 21, 2009 following the mill's closure on June 1, 2009. The Applicants have no ability to pay these amounts at this time.

141. As at June 16, 2009 the Applicants have a total of \$66.7 million of loans outstanding: \$15.8 million drawn and utilized under a revolving working capital facility with CIT (not including \$40.8 million in LC's issued at the request of the Applicants), \$25.9 million borrowed under the N.B. Loan and \$25 million under a term loan with CIBC. The Applicants are required to repay or refinance the \$25 million term loan in September 2009 and they have no ability to do so at this time.

142. As described above, the Applicants' accrued pension benefit obligations in its five Pension Plans and SERP's exceed the value of the Pension Plan assets by approximately \$171.5 million as at December 31, 2008, as determined in accordance with GAAP. The Applicants are required to make payments of \$3.5 million by September 30, 2009 and an additional \$10.1 by December 31, 2009. Average annual payments of approximately \$34.7 million per year for the years 2010 to 2013 are expected to be required

to fund the Pension Plans. The Applicants' efforts to obtain a one-year funding holiday to address the deficit have not been successful. Without a funding holiday or another funding formula, the Applicants have no ability to meet these funding obligations.

143. Collective bargaining agreements at Plaster Rock, New Brunswick and Thurso, Quebec to which Fraser Papers is a party have expired. Similar agreements at Edmundston, New Brunswick and Madawaska, Maine expire on June 30, 2009 and October 31, 2009 respectively, and negotiations concerning Fraser Papers' request for terms and conditions required to achieve a successful restructuring of the Applicants' business have not led to any resolution to date.

144. The Applicants currently owe trade suppliers in excess of \$10 million beyond normal credit terms and owe an additional \$7.7 million in outstanding property taxes to six municipalities.

D. Efforts to Restructure

145. Over the past three years the Applicants have taken steps to address the challenges facing them and the industry generally, by implementing a number of initiatives to grow their specialty papers business, reduce their exposure to hardwood pulp and lumber markets and lower operating costs through reductions in highest cost capacity, process efficiencies, higher productivity and energy conservation, as described in further detail below.

146. In 2006, the Applicants permanently shut their 250,000 ton per year hardwood pulp mill in Berlin, New Hampshire that was integrated with the Gorham paper mill; increased shipments of specialty papers by 9%; and sold timberlands in New Brunswick while retaining a long term supply agreement. Proceeds of the sale of the timberlands were used to reduce debt by \$57 million and fund pension obligations of \$37 million.

147. In 2007, the restructuring initiatives included a major rebuild of the recovery boiler at the Edmundston sulphite mill to expand its productive capacity and lower costs; the closure of the two

smallest and highest cost paper machines at the Madawaska mill, representing 15% of the manufacturing capacity; the closure of an oil fired boiler and turbine at Edmundston and the closure of one paper machine representing 20% of the capacity at Gorham. In response to a deterioration in the lumber markets, mill operations at the four locations were curtailed by 50% over levels in 2006 once a supply of softwood chips was secured from alternative sources.

148. During 2008 the Applicants grew the value added paper business by increasing shipments of specialty packaging papers by 11% and high-bright groundwood papers by 35%. Higher paper prices were secured and the Fraser Group achieved a 7% increase in the average realized price of its paper products. This generated an additional \$34 million in revenue. In addition, the Applicants' pipeline of new products under development was expanded in 2008 to include approximately 50 new projects at various stages of development from concept to commercial launch. The Applicants estimate that the combined benefit from the product mix improvements added \$13 million to the Fraser Group's bottom line for 2008. In 2008 the Fraser Group also increased productivity and throughput by 6% at the paper mills, and capital projects at the Edmundston pulp mill provided a similar 6% improvement in throughput.

149. Despite these significant initiatives undertaken by the Fraser Group, the Applicants experienced significant uncontrollable cost pressures from fibre, energy and chemical pricing and Canadian/U.S. foreign exchange, which totalled \$52.4 million in 2008 compared to the prior year, and led to negative EBITDA of \$34 million in 2008.

Recent Mill Shutdowns

150. On June 1, 2009 the pulp mill at Thurso, Quebec was indefinitely closed due to the market conditions that have led to unsustainable cash losses. The Thurso facility will remain closed until market conditions improve or a solution can be found to mitigate the cash drain on the Applicants.

151. On June 8, 2009, a complete facility shutdown was undertaken at Edmundston involving the (i) groundwood paper mill; (ii) sulphite pulp mill; and (iii) CoGen Facility. The CoGen Facility and

groundwood mill are scheduled to undergo annual maintenance. The CoGen Facility restarted operations on June 12, 2009 and the groundwood mill is expected to restart on or about June 18, 2009. The re-start of the sulphite pulp mill is dependent upon whether the Applicants are able to lower operating costs at the sulphite pulp mill, including reaching new terms and conditions under a collective agreement with the unions representing the employees at that mill, as discussed below.

152. At this time the Applicants' paper mills in Madawaska, Maine and Gorham, New Hampshire will continue to operate, although at capacity rates that will be dependent on customer orders and the Applicants' ability to source an adequate fibre supply.

Negotiations with Stakeholders

153. The Applicants have approached the Ministry of Economic Development, Innovation and Export of the Quebec Government with a proposal requesting \$45 million of equity and debt financing for a new subsidiary company that would own and operate the Thurso pulp mill. The financing requested would be sufficient to fund future operating losses, capital expenditure requirements and pension funding obligations and allow the mill to re-start. At the same time, the Applicants have begun negotiations with their unionized employees at Thurso toward a new collective agreement with terms and conditions that would involve wage and benefit concessions necessary to attract the necessary financing. Discussions with the Quebec Government and the unionized employees are continuing.

154. The Applicants have requested the Ministry of Natural Resources in New Brunswick ("MNR") to agree to an additional allocation of Crown fiber in proportion to their size and share in the provincial forest products industry. The Company currently has approximately 400,000 cubic meters of crown sawlogs, pulplogs and chips and has requested additional crown fibre in various forms. The Applicants believe that the right to access crown fibre that allows it to utilize economies of scale is a critical piece to its long term competitive position, and is fair and reasonable in the circumstances. On June 5, 2009, the MNR provided the Applicants with an increase from 9% to approximately 20% of the crown allocation in

the Province. This increase in allocation is conditional upon the Company achieving cost reductions at its operations in New Brunswick.

155. The Applicants have approached NB Power with respect to an amendment to the terms and conditions under the CoGen Agreement that would provide a more appropriate index for changes in the price paid for biomass fuel, a more favourable price for the renewable power produced by the CoGen Facility and a number of other material changes that would either lower the cost of operation of the CoGen Facility or increase the price of electricity sold from it. While no final agreement has been reached, the parties have agreed that the Company can include power produced from an additional, more efficient turbine generator under the CoGen Agreement, providing the opportunity for Fraser Papers to generate electricity more efficiently using less biomass. This change should also reduce the requirement to operate one additional boiler during the winter months in Edmundston.

156. In February 2009, the Applicants received an extension in the amortization schedule of its pension funding obligations in New Brunswick from five years to ten years. This relief was retroactive to 2008 and reduced the pension funding required for 2009 by approximately \$5.0 million.

157. In April, 2009 the Applicants requested a one year pension funding holiday from the pension regulators in New Brunswick and Quebec. These requests were denied. Discussions have continued with the New Brunswick Government on a pension funding solution and the Applicants understand that the New Brunswick Government is studying the situation on a broader level.

V. FILING FOR PROTECTION

A. Overview of Restructuring Plan

158. The Applicants intend to immediately prepare the framework of a restructuring plan that will form the basis of a formal plan to be presented to creditors as soon as possible. Key criteria will be new arrangements for crown allocation of timber in New Brunswick, re-establishing a competitive energy

position with respect to electricity and steam, and achieving lower operating costs at both Edmundston and Madawaska. In addition, the economic relationship with unionized employees will have to be brought to a level that allows Fraser Papers' products to be produced at a cost that is competitive. It is anticipated that certain operations or mills that are considered non-core to this business may be sold or otherwise discontinued as part of a restructuring of the Fraser Group as a whole.

B. Cash Flows

159. The Applicants' have prepared estimated cash flow forecasts for the period June 18, 2009 to July 17, 2009 on a consolidated basis (the "Cash Flow Forecast"). As described above, the factors influencing the Cash Flow Forecast are both volatile and variable. A copy of the Cash Flow Forecast is attached as Exhibit "J" to this Affidavit.

160. The proposed Monitor in this proceeding, PricewaterhouseCoopers Inc. ("PwC"), has reviewed the Cash Flow Forecast. The Cash Flow Forecast indicates that, in the absence of any DIP Financing, the Applicants will have insufficient cash with which to operate after June 30, 2009. The Applicants' need for protection is immediate and urgent.

161. The Cash Flow Forecast contemplates payment of current pension funding obligations only, as the terms of the DIP Financing prohibit the payment of any special payments including as it relates to the solvency deficit or going-concern deficit.

C. DIP Financing

162. Due to the insolvency of the Applicants, the Fraser Group will require additional funding in order to implement this restructuring. Brookfield and CIT have both agreed to provide debtor in possession financing ("DIP Financing") to the Applicants up to the aggregate amount up to \$46 million, subject to the Applicants obtaining an Initial Order in this proceeding on the terms requested granting Brookfield and CIT a charge over all property, assets and undertaking of the Applicants in priority to all creditors except CIT in respect to its existing security, to secure the DIP Financing. Term sheets describing the

amount, priority, terms and conditions of the DIP Financing to be provided by Brookfield and CIT are annexed hereto and marked as Exhibits "K" and "L", respectively.

163. I understand that Section 5.7(d) of Multilateral Instrument 61-101 "Protection of Minority Security Holders in Special Transactions" under the *Securities Act* (Ontario) requires that Fraser Papers seek minority approval of its security holders before completing the DIP Financing transaction, by virtue of Brookfield's majority interest in Fraser Papers. I also understand that Multilateral Instrument 61-101 provides an exemption from the minority approval requirement where the transaction is subject to court approval under applicable bankruptcy or insolvency law and the court is advised of the minority approval requirement.

164. The Applicants seek a provision in the Initial Order confirming the disclosure by the Applicants of this requirement and dispensing with the need for compliance.

165. Brookfield provides existing financial support to the Applicants in various forms. In addition to the guarantees it has provided to the Applicants' lenders, as described above, Brookfield and Fraser Papers are party to a paper supply agreement dated January 29, 2009 (the "Paper Supply Agreement") whereby Brookfield purchases paper inventory from Fraser Papers that it then sells to third party customers. A copy of the Paper Supply Agreement is annexed hereto and marked as Exhibit "M".

166. Under the terms of the Paper Supply Agreement, Fraser Papers receives payment for the sale of paper to Brookfield within approximately two business days, whereas Brookfield receives payment from its customers approximately 15 to 60 days thereafter. Fraser Papers acts as collection agent for Brookfield and all receivables relating to Brookfield's sale of paper are collected by Fraser Papers and remitted to Brookfield. The Paper Supply Agreement also includes terms with respect to the payment and reimbursement of freight and warehousing costs as between Brookfield and Fraser Papers.

167. In view of the availability of DIP Financing to be extended by Brookfield and in accordance with the terms and conditions precedent to such funding, by agreement of the parties Brookfield's obligation to purchase paper inventory from Fraser Papers from and after the date of the Initial Order will terminate, with all other terms and conditions continuing to apply. Fraser Papers will continue to collect on Brookfield's behalf the outstanding receivables in respect of paper sold under the terms of the Paper Supply Agreement (for which Fraser Papers will have already received payment from Brookfield) and will remit the proceeds to Brookfield. Fraser Papers will also continue to make payments for freight and warehousing costs incurred while inventory was being purchased by Brookfield, for which it will be reimbursed by Brookfield. The Initial Order sought by the Applicants includes a provision authorizing these arrangements in accordance with the terms of the DIP Financing and the Paper Supply Agreement.

168. The Monitor will provide oversight and will report to the Court with respect to the Applicants' actual results relative to the estimated Cash Flow Forecast during this proceeding. The Applicants' existing accounting procedures will provide the Monitor with the ability to track the flow of funds among the various Applicants, and the non-priming intercompany charges to be created among the Applicants, as described below, will ensure that no creditor of an Applicant is prejudiced by any inter-company activity during the continuation of this proceeding.

D. Chapter 15 Proceeding in the U.S.

169. As the U.S. subsidiaries are incorporated under the laws of Delaware and Maine, and because the Fraser Group has operations in the U.S., the Applicants will be seeking recognition of these proceedings as the foreign main proceeding by the U.S. Bankruptcy Court. Accordingly, if an initial CCAA order and a stay of proceedings are granted, the Applicants intend to immediately commence auxiliary proceedings under Chapter 15 of the U.S. *Bankruptcy Code* pursuant to which they will seek to have the CCAA proceedings and this Court's order recognized and enforced in the U.S. as a foreign main proceeding. This will include an immediate request for a temporary restraining order granting provisional relief under

the U.S. *Bankruptcy Code* and preventing any steps from being taken that would impair the Applicants' ability to carry on its business operations in the U.S., pending further order of the Court.

170. The Chapter 15 Petitions to be filed will name Fraser Papers as the Foreign Representative in respect of each Applicant.

E. The Initial Order

171. Fraser Papers' Board of Directors is comprised of five directors, representing a diverse base of business skills and experiences. These directors have considerable knowledge and experience in dealing with the business of the Fraser Group, and have provided direction to management on several key initiatives undertaken over the past several years. The Applicants are of the view that the continued participation of the existing directors and officers will be a key element to a successful restructuring.

172. I am concerned that certain of the directors and officers may receive advice to resign if they are not granted the protection of a Directors' Charge as provided for in the draft Initial Order. I also believe that, given their experience in the affairs of the Applicants, the services of the directors and officers are essential to a successful proceeding and that the Directors' Charge over all the assets of the Applicants should therefore be granted.

173. Management estimates that the priority payables in respect of which the directors have personal liability at any point in time during the CCAA process is approximately \$20 million, taking into account approximately 2,400 employees. This amount does not include any termination or severance payments that may at any time be owing. The Applicants therefore request a Directors' Charge in the amount of \$30 million to secure such obligations. The Applicants have sought guidance from the Monitor in respect of comparable CCAA filings in suggesting this number.

174. The Directors' Charge requested in the Initial Order will be in addition to the existing directors' and officers' insurance policies (collectively, the "D&O Policies"). The primary policy has a limit of \$25

million and there is an excess policy for \$25 million. In addition, Endorsement 10 of the D&O Policy is a reinstatement endorsement whereby if the \$50 million in coverage is exhausted, the primary insurer will reinstate for an additional \$25 million in coverage.

175. The Applicants also request that the Court grant a charge in favour of the Applicants' counsel and in favour of the Monitor and its counsel, to secure the payment of fees and expenses incurred in connection with this proceeding. The Applicants seek an Administration Charge in the amount of \$750,000, to secure payment of the fees and expenses of the Applicants' counsel, the Monitor and its counsel.

176. As described above, due to the integrated manner in which the Fraser Group operates, on occasion cash is advanced to or charges are incurred by one Applicant on behalf of another Applicant. The Applicants propose to maintain their existing cash management and accounting system during this proceeding under the oversight of the Monitor, which is acceptable to their operating lender CIT. The Applicants also want to ensure that no creditor of any individual Applicant is prejudiced by the inter-company flow of funds or incurring of liabilities from and after the date of filing. It is proposed that to the extent one Applicant advances money to or incurs a cost on behalf of another Applicant, they will obtain a non-priming secured charge from the recipient Applicant for that amount. The intercompany charge will attempt to maintain the relative priority and value of each Applicant's estate and ensure that one Applicant does not fund, at the expense of its stakeholders, the operations of another Applicant. As inter-company amounts are settled on a monthly basis and this proceeding is being commenced mid-month, it is proposed that the inter-company charge sought as part of the Initial Order cover the current month of intercompany transactions.

177. I have reviewed the model form of Initial Order that is used for proceedings before the Commercial Court in Toronto under the CCAA (the "Model Order"). Certain amendments to the model

form of Initial Order are requested to be made, all of which are necessary to the Applicants' ability to continue business operations in order to effect a successful restructuring.

178. The Applicants currently owe realty tax arrears to various municipalities for the facilities located in those jurisdictions. Some of these facilities (or individual mills located on the facilities) are expected to form part of the restructured business operations of the Applicants upon successful emergence from this proceeding, while other facilities or individual mills may not. In consultation with the Monitor, the Applicants will be reviewing each of the mills and facilities in developing a restructuring plan. In view of their limited cash resources, the Applicants do not believe it is prudent to utilize proceeds of the DIP Financing to pay realty tax arrears on facilities that will not form part of their future operations, or that may be sold or abandoned. The Applicants therefore seek a term in the Initial Order providing discretion as to payment of realty tax arrears on a case by case basis. Current realty taxes on all facilities that are being utilized by the Applicants will continue to be paid from and after the commencement of this proceeding.

179. The Applicants also seek a clarification to the Model Order to confirm that their renewal rights as it relates to certain existing insurance policies are unaffected by the commencement of this proceeding. The Applicants have two insurance policies that are due to expire June 30, 2009 covering: (i) property; and (ii) Canadian fleet insurance on vehicles owned by Fraser Papers. The Applicants have included an amount in the Cash Flow Forecast representing the annual premium payment plus a four percent increase, based on prior years' expenses for insurance. If the Applicants were unable to obtain a renewal of coverage under the property insurance policy from their present insurer on the same or similar terms, it is unlikely that they would be able to secure alternate coverage from a new insurer on terms that would be financially feasible, resulting in a potential shutdown of the facilities.

180. The Applicants provide certain volume rebates to customers that will be important to maintain notwithstanding the commencement of this proceeding. The forest products industry is rapidly

contracting and is highly competitive. If the Applicants do not have the ability to honour rebates earned by customers seamlessly throughout the period prior to and after the date of filing, those customers may quickly move their business to a competitor who can continue to offer volume-related incentives. The Applicants intend to review all such programs with the Monitor.

181. Due to the nature of the business of the Fraser Group, the Applicants have goods in transit at any point in time. The Applicants have requested a provision in the Initial Order to ensure that there is no disruption to the business relating to non-payment of amounts owing to freight forwarders, customs brokers or similar agents who are critical to the Applicants' operations, whether in respect of the period prior to or after the date an Order is issued. In addition, with the Monitor's consent and subject to the terms of the DIP Financing, the Applicants request that they be permitted to make payments to particular suppliers up to a certain capped amount, if it is determined that such suppliers are critical to the Applicants' ongoing business operations, and the inability to pay such amounts may jeopardize their ability to achieve a successful restructuring.

182. As outlined above, certain LC's are outstanding in connection with a landfill located in the State of Wisconsin. The Wisconsin Landfill was originally owned by a predecessor to Fraser Papers, was subsequently owned by Fraser Madawaska and was then sold to Smart Papers LLC in 2005. Fraser Papers agreed to leave LC's in place totalling approximately \$3.5 million to facilitate the sale of the mill to Smart Papers LLC, to support closure and post-closure care obligations assumed by the purchaser on closing. Smart Papers LLC paid certain costs associated with the Wisconsin Landfill following the closure of the mill, but subsequently filed for protection under Chapter 11 of the U.S. *Bankruptcy Code* in 2007. As part of that proceeding Smart Papers LLC paid a small amount to the Wisconsin Department of Natural Resources ("DNR") and obtained a release from any further liability in connection with the Wisconsin Landfill. Smart Papers ultimately became bankrupt.

183. Smart Papers LLC sold the paper mill, but not the Wisconsin Landfill, and accordingly the Wisconsin Landfill continues to be owned by a bankrupt entity in respect of which LC's issued at the request of Fraser Papers remain outstanding. In 2007, the DNR advised Fraser Papers that it intended to drawn down the LC's, spend as much as was necessary in their view to close and care for the Wisconsin Landfill, and then sue all prior owners including the Company. The Company believed that it could close and care for the Wisconsin Landfill for an amount that was less than the aggregate amount of the outstanding LC's, and persuaded the DNR to allow the Company to proceed in this manner.

184. Since that time, Fraser Papers has completed the closure obligations and has continued to pay post-closure care amounts. It is in the process of applying for the release of a portion of the LC's totalling approximately \$700,000 to \$800,000. The Company believes that it is in the best interests of their stakeholders that it be permitted to complete the necessary post-closure work on the Wisconsin Landfill, to facilitate the return of the outstanding LC's. The Cash Flow Forecast prepared by the Applicants include these payments.

185. An amendment to the Model Order as it relates to payment of pension and benefits is also requested, as outlined above in respect of the Cash Flow Forecast. The requested amendments make it clear through the use of mandatory language that all employees who are continuing to provide a service to the Applicants from and after the date of the Initial Order will continue to receive all health, dental, insurance and related benefits to which they were entitled immediately prior to filing. The Applicants will also continue to pay all current pension funding obligations.

186. The Applicants also request to not make any special payments in respect of their pension obligations (including obligations under its SERP plans) after the date of filing, in particular as it relates to funding the solvency deficit or the going-concern deficit, and they are prohibited from doing so under the terms of the DIP Financing.

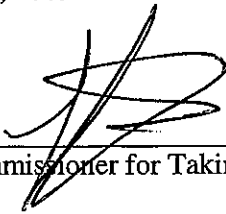
187. As outlined in the draft Initial Order sought by the Applicants, the Applicants seek a provision in the Initial Order providing them with the discretion to pay health, dental, insurance and related benefits on behalf of retirees or any other non-active employees up to a certain amount per month in accordance with the terms of the DIP Financing, without obligating them to do so. It is intended that these payments will continue to be made following the issuance of the Initial Order, with the Applicants having the discretion to stop making such payments at any time thereafter on notice to the affected parties if it is determined that it is not feasible to continue doing so.

F. The Monitor

188. The Applicants propose that PwC be appointed Monitor for this proceeding. PwC is not the auditor for the Applicants. PwC has consented to act as Monitor and its written consent is being filed with this Honourable Court.

189. I swear this affidavit in support of the Applicants' request that an Initial Order be granted under the CCAA in the form annexed to the Notice of Application herein, and for no other or improper purpose.

SWORN before me at the City of Toronto,
in the Province of Ontario, this day of
June, 2009.



Commissioner for Taking Affidavits

Gloria Kalkounis, a Commissioner, etc.,
City of Toronto, for ThomsonGoudFinnigan LLP
Barristers and Solicitors.
Expires August 27, 2010.

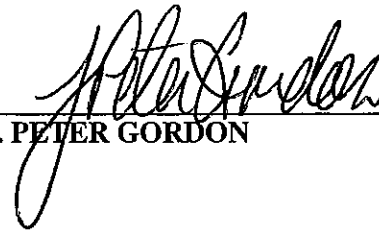

J. PETER GORDON

Exhibit “A”

FRASER PAPERS ORGANIZATIONAL CHART

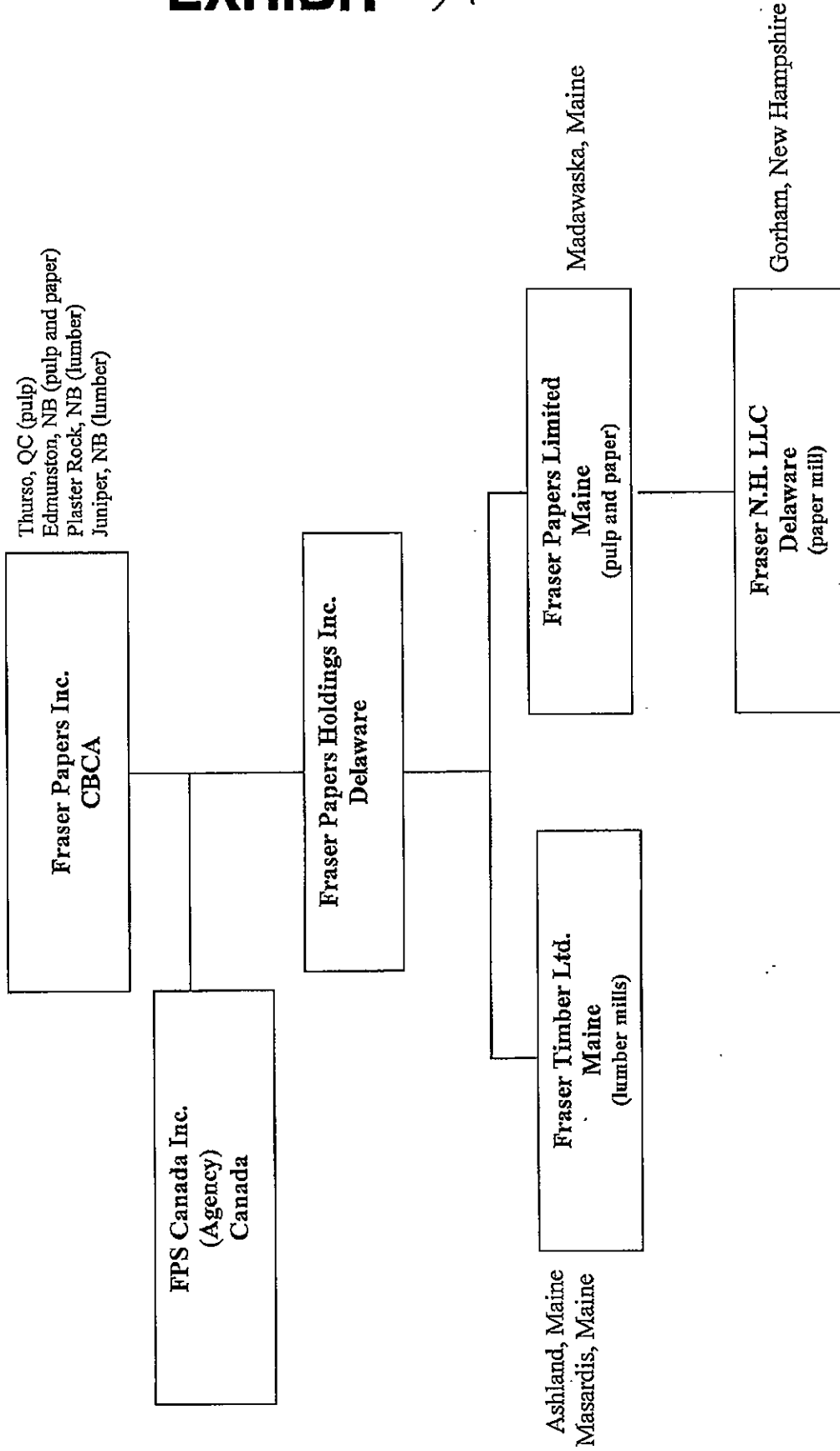
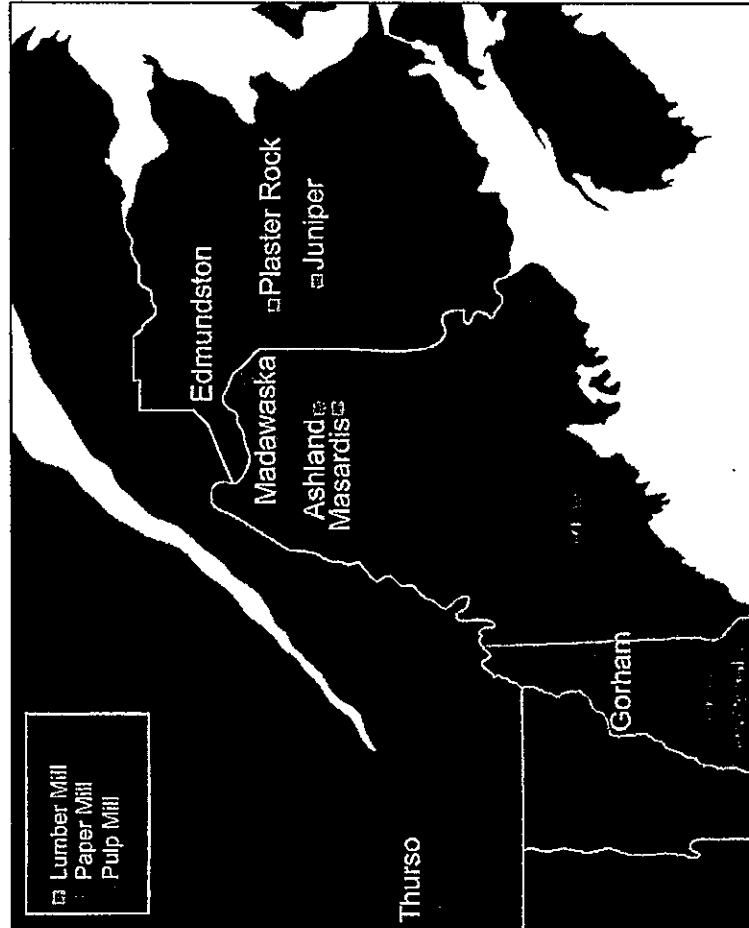


EXHIBIT "A"

Exhibit “B”

Business Overview

FRASER PAPERS OPERATIONS



Paper Mills
 Madawaska, Me
 Gorham, NH

Pulp Mills
 Edmundston, NB
 Thurso, QC

Lumber Mills
 Plaster Rock, NB
 Juniper, NB
 Ashland, Me
 Masardis, Me

EXHIBIT "B"

Exhibit “C”

EXHIBIT "C"

FraserPapers

Below is an overview of the wood fibre flow in the production processes of Fraser Papers:

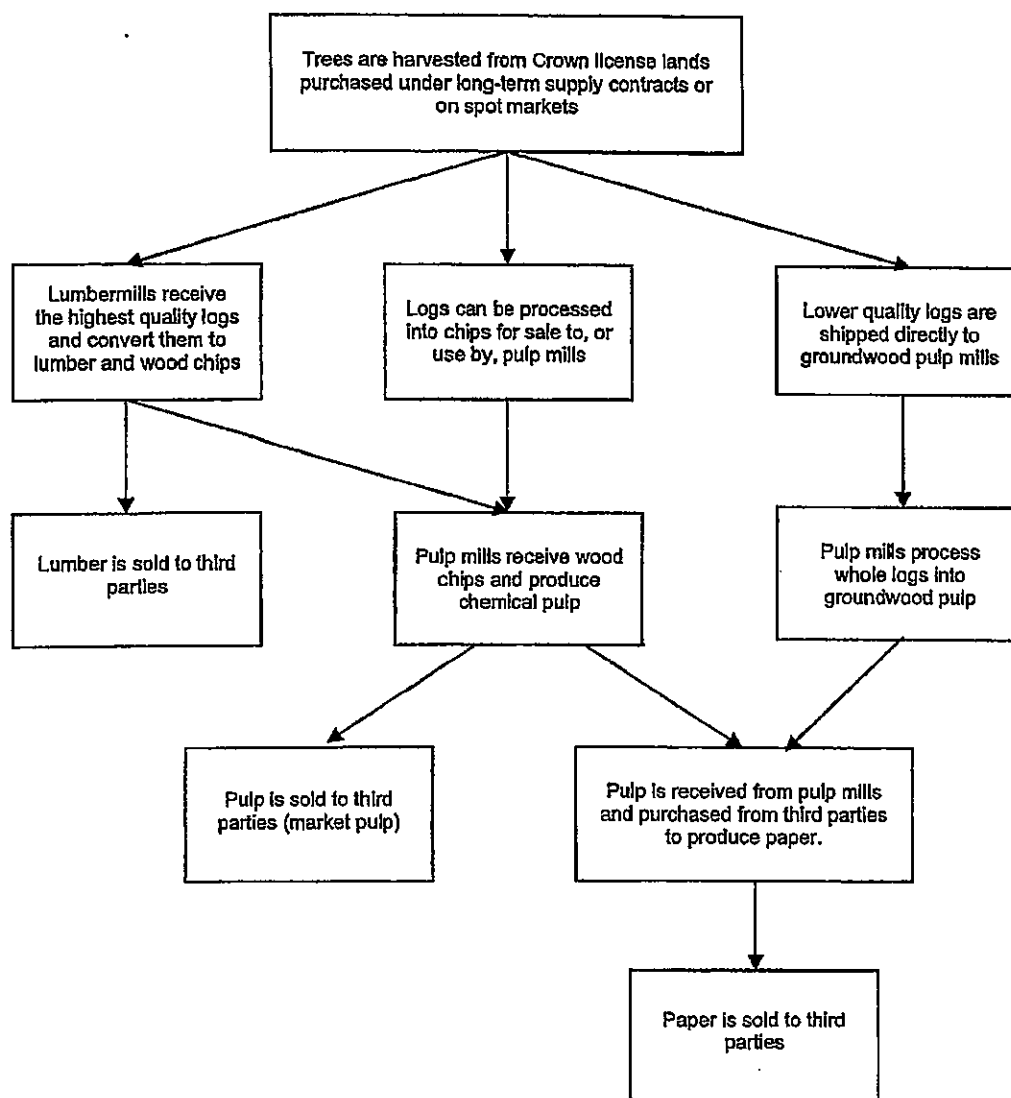


Exhibit “D”

EXHIBIT "D"

**AGREEMENT
FOR THE SUPPLY OF ELECTRIC CAPACITY AND ENERGY
between
FRASER INC.
and
NEW BRUNSWICK POWER CORPORATION**

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AGREEMENT

FOR THE SUPPLY OF ELECTRIC CAPACITY AND ENERGY

THIS AGREEMENT MADE THIS 16th day of May, 1995.

BETWEEN:

FRASER INC., a wholly owned subsidiary of Noranda Forest Inc. with an office in Edmundston, New Brunswick, hereinafter called the "Seller",

- and -

NEW BRUNSWICK POWER CORPORATION, a statutory body created by an Act of the Legislature of the Province of New Brunswick being Chapter E-5 of the revised Statutes of New Brunswick, 1973, having its Head Office in the City of Fredericton, Province of New Brunswick, hereinafter called "NB Power",

Both of which are hereinafter sometimes referred to as "the Parties".

WHEREAS the Seller intends to construct, to own and to operate an electric Co-Generation station fuelled primarily by Biomass Fuel at Edmundston, NB which will be adjacent to pulp and paper mill facilities operated by Fraser Inc. and Fraser Paper, Limited in Edmundston, NB and Madawaska, Maine respectively;

AND WHEREAS NB Power is engaged in the generation, transmission and distribution of electricity in the Province of New Brunswick;

AND WHEREAS the Seller and NB Power are parties to an agreement dated December 2, 1974 for the supply by NB Power to the Seller of firm power and energy (hereinafter such agreement as amended, supplemented, replaced or superseded called the "Power Contract");

AND WHEREAS the Seller agrees to sell and NB Power agrees to purchase electrical capacity and energy generated by the Seller;

NOW THEREFORE, in consideration of the premises and of the mutual covenants hereinafter set forth, it is mutually agreed as follows:

ARTICLE I
DEFINITIONS

In this Agreement, unless the context otherwise requires, the following definitions will apply:

1.1 Co-Generation

Co-Generation means a process for the generation of electrical capacity and energy that can produce, during each and every Contract Year, at least 25% of its energy output in the form of thermal energy for processing purposes.

1.2 Biomass Fuel

Biomass Fuel means wood or wood waste products such as bark, sawdust, sawmill residue and wood chips.

1.3 Seller Facilities

Seller Facilities means the Seller's Co-Generation unit described in Section 2.1.

1.4 NB Power Facilities

The NB Power Facilities are the generation and transmission system of NB Power and the necessary extension thereof constructed to the Delivery Point, the Metering Equipment and telecommunication facilities described in Section 2.2, all of which are, except as otherwise provided in this Agreement, owned and maintained by NB Power.

1.5 Fraser Mill Complex

Fraser Mill Complex means the pulp and paper mill processes operated by the Seller and Fraser Paper, Limited in Edmundston, New Brunswick and Madawaska, Maine respectively.

1.6 Maximum Capacity

Maximum Capacity is the maximum electrical generating capability, net of station service, made available to NB Power by the Seller. Maximum Capacity shall be determined in accordance with Section 2.3 of this Agreement.

1.7 Minimum Capacity

Minimum Capacity is the minimum electrical generating capability, net of station service, at which the Seller Facilities may operate and still meet the Seller's steam requirements from the Seller Facilities in order for the Fraser Mill Complex to operate at normal operating conditions. The Minimum Capacity will be the level down to which NB Power may dispatch the Seller Facilities pursuant to Section 4.6 of this Agreement. A Minimum Capacity shall be established for each of three periods in accordance with Section 2.3 herein.

1.8 Dedicated Capacity

Dedicated Capacity means the amount of net electrical generating capability that the Seller makes available and dedicates to NB Power. Dedicated Capacity shall be an amount designated by the Seller, provided that in no case shall Seller designate an amount greater than a number equal to the difference between: (i) Maximum Capacity, as determined by the most recent test for Maximum Capacity conducted in accordance with the provisions of Section 2.3; and (ii) the Capacity Adjustment. Seller shall designate, by notice in writing to NB Power, the Dedicated Capacity within fifteen (15) working days after the completion of each test for Maximum Capacity.

1.9 Capacity Adjustment

Capacity Adjustment shall have the meaning ascribed thereto in Section 2.4.

1.10 Capacity Factor or C.F.

Capacity Factor with respect to any month is the percentage calculated by dividing the actual energy delivered by the Seller Facilities in such month plus energy that was dispatched by NB Power in accordance with Section 4.6 in such month

including, without limitation, the one hour period Seller has to reduce production and the six hour period Seller has to resume production in accordance with Section 4.6, by the energy that could have been delivered in such month if the Seller Facilities had operated continuously at the Dedicated Capacity during such month. Subject to Section 10.3 the calculation of Capacity Factor shall exclude in both the numerator and denominator of such calculation any time period during which the Seller Facilities are not delivering energy due in whole or in part to an event of Force Majeure. If Seller Facilities do not deliver electrical capacity and energy by reason of Force Majeure for an entire month, the Capacity Factor for such month shall be determined in accordance with Section 10.3. In accordance with Section 8.1, should an interruption provided for therein continue for more than 120 hours, all such hours in excess of 120 shall be deducted from both the numerator and the denominator in the calculation of Capacity Factor.

1.11 Capacity Charge or CC

The Capacity Charge is a fixed amount per month equal to \$20.34 multiplied by Dedicated Capacity in kilowatts. Capacity Charge will be redetermined each time Dedicated Capacity is designated in accordance with Section 1.8.

1.12 Commencement Date of Operation

Commencement Date of Operation is the day following the completion of the first successful test for Maximum Capacity as provided in Section 2.3 and during which test all features and equipment of the Seller Facilities are demonstrated to NB Power's satisfaction to be capable of operating simultaneously to deliver capacity and energy into NB Power's system as provided in this Agreement. The Commencement Date of Operation shall not be prior to December 1, 1996.

1.13 Proposed Commencement Date of Operation

The Proposed Commencement Date of Operation is August 1, 1997.

1.14 Delivery Point

Delivery Point is the place where the NB Power Facilities and the Seller Facilities are connected together. The Delivery Point shall be shown on a one-line diagram,

the details of which shall be subject to the mutual agreement of the Parties. NB Power will provide to Seller as soon as is reasonably possible following the signing of the Agreement a draft of such diagram.

1.15 Metering Points

The Metering Points are at or near the Delivery Point, and shall be shown on the one-line diagram described in Section 1.14.

1.16 Metering Equipment

The Metering Equipment is the metering and associated equipment approved by Industry Canada, or such other authority as may from time to time be charged with such responsibility, required for measuring capacity and energy supplied under this Agreement, and such other metering and associated equipment which in the opinion of NB Power, acting reasonably, is required for the administration of this Agreement, provided that the cost to the Seller of such equipment is reasonable.

1.17 Contract Year

Contract Year is the 12 month period beginning on December 1 and ending on November 30.

1.18 Winter Period

Winter Period is the 4 month period from December 1 to March 31.

1.19 Summer Period

Summer Period is the 8 month period from April 1 to November 30.

1.20 Dispatch Level

Dispatch Level means the level below Dedicated Capacity to which NB Power dispatches the Seller's output in accordance with Section 4.6. Dispatch Level shall not go below the Minimum Capacity in effect at such time except upon mutual agreement of the Parties.

1.21 Surplus Energy

Surplus Energy has the meaning ascribed thereto in Section 4.3.

1.22 Good Utility Practice

Good Utility Practice means any of the practices, methods and acts which, in the exercise of reasonable judgment in the light of the facts known to Seller or NB Power, as the case may be, at the time that a decision was made, could reasonably have been expected to accomplish the desired result at a reasonable cost, consistent with licensing and regulatory considerations, environmental considerations, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method or act, to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts employed by owners and operators of facilities similar in size, type and operational characteristics to the Seller Facilities or NB Power Facilities, as the case may be, and having due regard for applicable electrical, safety and maintenance codes and standards, manufacturers' warranties and applicable laws.

1.23 Consumer Price Index or CPI

The Consumer Price Index is the calendar year average of the All Item Consumer Price Index for Canada, as published by Statistics Canada as a monitor of retail prices for goods and services in Canada in Catalogue No. 62-001, or if that index is no longer published, an equivalent index.

ARTICLE II
PROVISION OF FACILITIES

2.1 Provision of Seller Facilities

The Seller agrees to construct a 38.5 MW nominal Co-Generation power plant to be fuelled primarily by Biomass Fuel. The power plant will include, without limitation, one wood fired boiler, one steam turbine-generator, one cooling tower, one electrostatic precipitator, an ash handling system, a wood fuel handling system, an electrical distribution system, an instrumentation and a control system, and ancillary equipment and systems for a complete and operable power plant.

2.2 Transmission Line and Telecommunication Facilities Construction

NB Power will extend the transmission system from its 138 kV facilities near its Iroquois Terminal to the Delivery Point at the Seller's expense. The estimated cost of the transmission extension and any necessary additions or modifications to the transmission system, including applicable engineering and overhead charges, is \$750,000.00. NB Power will own and maintain at its cost this transmission line extension, additions and modifications up to the Delivery Point.

Telecommunication facilities adequate for the transmission of necessary equipment status and metered quantities shall be installed by NB Power at Seller's expense between the Fraser Mill Complex and the point of nearest interconnection with NB Power's microwave telecommunications network at NB Power's Edmundston Terminal. NB Power shall provide to Seller an estimate of the cost of such telecommunication facilities, including applicable engineering and overhead charges, as soon as is reasonably possible following the signing of this Agreement. NB Power will own and maintain at its cost that portion of such telecommunication facilities located on the NB Power side of the Delivery Point. Seller will own and maintain, at Seller's expense, such telecommunication facilities located on Seller's side of Delivery Point.

If at any time NB Power anticipates that the cost to Seller of constructing the above-described transmission line extension and/or telecommunication facilities will be higher than earlier estimated, NB Power will so advise Seller and provide Seller with a revised estimate.

To secure Seller's obligations under this Section 2.2, Seller shall, prior to any construction work taking place by NB Power, provide NB Power with an irrevocable letter of credit in a form satisfactory to NB Power in an amount equal to NB Power's most recent estimate of the total cost of constructing the above described transmission line extension and telecommunication facilities.

Seller shall pay amounts due under this Section 2.2 in accordance with invoices provided by NB Power from time to time.

2.3 Acceptance Test

The Seller agrees to demonstrate to NB Power the Maximum Capacity and Minimum Capacity of the Seller Facilities in accordance with the following procedures:

For the purposes hereof:

"Other Generation Facilities" means all of the generating facilities of Seller located at the Fraser Mill Complex other than the Seller Facilities.

"Maximum Capacity Test Period" means the 48 consecutive hour period selected by the Seller during which the Maximum Capacity is determined.

"Minimum Capacity Test Period" means the 48 consecutive hour period selected by the Seller during which the Minimum Capacity is determined.

(i) Maximum Capacity Test

The purpose of the test is to determine the Maximum Capacity of the Seller Facilities. During the Maximum Capacity Test Period the Seller Facilities must operate continuously at full load for the full 48 hour period. During the Maximum Capacity Test Period the following shall occur:

- (i) the output of the Seller Facilities shall be metered and a calculation shall thereafter be made of the average rate of electrical production in MWh/hr produced during the Maximum Capacity Test Period (the "Seller Facilities Output");
- (ii) the output of the Other Generating Facilities shall be metered and a calculation shall thereafter be made of the average rate of electrical production in MWh/hr produced during the Maximum Capacity Test Period (the "Other Facilities Output");
- (iii) the Fraser Mill Complex shall operate at normal operating conditions including, without limitation, normal temperature, pressure and steam conditions. Seller shall, prior to commencement of the test, provide NB

Power with a schematic showing an estimate of normal operating conditions; and

- (iv) all of the Other Generating Facilities shall operate at the average of the rated capacity of such facilities.

If all of the above conditions shall have been met for the continuous 48 hour period of the Maximum Capacity Test Period, the test will be considered to have been successfully completed. Upon such successful completion, Maximum Capacity shall be established as the lesser of 38.5 MW and Seller Facilities Output. Seller shall then designate Dedicated Capacity in accordance with Section 1.8. Following such designation the aggregate of Seller Facilities Output and Other Facilities Output less Dedicated Capacity shall be considered generating capacity against which Seller may purchase interruptible energy under the Power Contract.

(ii) Minimum Capacity Test

The purpose of the test is to determine the Minimum Capacity of the Seller Facilities during each of the three periods described below in this Subsection 2.3(ii). During the Minimum Capacity Test Period the Seller Facilities will be operated at the level required for the Seller Facilities to produce the minimum level of steam production required by Seller, as determined by Seller, acting reasonably, in order for the Fraser Mill Complex to operate at the normal operating conditions at such time, including, without limitation, normal temperature, pressure and steam conditions. Seller shall, prior to commencement of the test, provide NB Power with a schematic showing an estimate of normal operating conditions. The Minimum Capacity of the Seller Facilities will be determined by calculating the average rate of energy production in MWh/hr produced during the Minimum Capacity Test Period.

Minimum Capacity shall be determined for each of the three following periods either by means of the above described test procedure or by mutual agreement of the Parties:

- i) the months of December, January, February and March (the "High Period");

- 10 -

- ii) the months of June, July, August and September (the "Low Period");
and
- iii) the months of April, May, October and November (the "Intermediate Period").

Subject to the following paragraph, the tests for Maximum Capacity and Minimum Capacity may be repeated at any time and from time to time at the discretion of the Seller during the period (the "Test Period") from the Commencement Date of Operation up and until the later of: (i) the first anniversary date of the Commencement Date of Operation; and (ii) the last day of the first full Winter Period. However, the results of the last test for Maximum Capacity conducted during a Winter Period within the Test Period shall determine the Maximum Capacity for the balance of the term hereof. The highest determination of Minimum Capacity for each of the High Period, Low Period and Intermediate Period shall determine the Minimum Capacity for each such period for the balance of the term hereof.

Notwithstanding the determination of Maximum Capacity and Minimum Capacity in accordance with this Section 2.3, the Seller shall, at the request of NB Power, be required to demonstrate to the satisfaction of NB Power at any time during any Winter Period of the term of this Agreement that the Seller Facilities, as a separate, stand alone generator, are capable of generating and delivering the Dedicated Capacity to NB Power. Seller shall conduct such test, at its expense, within 2 weeks of receiving the request from NB Power. Should such demonstration indicate a capability below the Dedicated Capacity, the Dedicated Capacity will be immediately reduced to the level of such demonstrated capability; provided that in such event Seller may request that a new test for Maximum Capacity be conducted. Such test shall be conducted at Seller's expense during any Winter Period and under the conditions described in Section 2.3(i). The results of such new test for Maximum Capacity will, notwithstanding the prior paragraph, determine the Maximum Capacity for the balance of the term, subject to NB Power's ability to request a further demonstration of capability in accordance with this paragraph.

2.4 Capacity Adjustment

For the purpose of clarifying intention only, it is the intent of the parties that any increase in the energy drawn by the Fraser Mill Complex under the Power Contract

from the date hereof to a date six months after the Commencement Date of Operation over and above a reasonable increase in demand of up to 3.0 MW during such period, reflective of Seller's desire to expand its operations at the Fraser Mill Complex, and over and above the energy required to construct and start-up the Seller Facilities, will be deducted from the maximum amount of electrical generating capability that Seller may dedicate to NB Power.

In light of said intention the Parties have agreed that:

- a) the demand against which the 3.0 MW increase will be measured is 80.4 MW, being the average demand on October 29, 1994, the day on which NB Power recorded the highest daily energy consumption (1,929,456 KWH) by the Fraser Mill Complex during the period from January 1, 1994 to the date hereof; and
- b) NB Power will monitor the daily average energy demand from NB Power of the Fraser Mill Complex for the period of time from the date hereof until a date six months after the Commencement Date of Operation (the "Subject Period"). From the information collected from NB Power, NB Power will determine the calendar day during the period from the date hereof to the earlier of: (i) the date on which the test to determine Maximum Capacity relevant to any particular determination of Dedicated Capacity is completed; and (ii) the end of the Subject Period, on which the daily average energy demand of the Fraser Mill Complex was the highest. In determining the daily average energy demand for the purposes of this Section 2.4 for any day, any time during which energy demand was abnormally high due to generating equipment failure at the Fraser Mill Complex will be excluded. If on such date the daily average energy demand of the Fraser Mill Complex less the amount of energy used in the construction of Seller Facilities and/or energy used in a start-up of Seller Facilities exceeds 83.4 MW, then the amount by which the daily average energy demand for such date less the amount of energy used in the construction of Seller Facilities and/or energy used in a start-up of Seller Facilities, as the case may be, exceeds 83.4 MW (the "Capacity Adjustment") will be deducted from the maximum amount of electrical generating capability Seller will be entitled to dedicate to NB Power at such time in accordance with the definition of Dedicated Capacity. The Capacity Adjustment, if any, will be calculated following each Maximum Capacity test conducted in accordance with Section 2.3 that occurs during the Subject Period. A final Capacity Adjustment, if any, will be calculated at the end of the Subject Period and will apply to any determination of Dedicated Capacity thereafter.

ARTICLE III
TERM OF AGREEMENT

3.1 Term

This Agreement will commence on the day and year first above written and continue in force for thirty (30) years from the Commencement Date of Operation.

ARTICLE IV
PURCHASE AND SALE OF ELECTRIC CAPACITY AND ENERGY

4.1 Purchase and Sale

Subject to Sections 4.3 and 4.5 the Seller agrees to sell and deliver to NB Power and NB Power agrees to purchase Dedicated Capacity and energy delivered at the Delivery Point. Other than electric capacity and energy used by Seller in Seller Facilities or Surplus Energy and capacity provided to the Fraser Mill Complex, Seller shall not sell or supply, directly or indirectly, any electric capacity and energy to any party other than NB Power.

Notwithstanding any other provision of this Agreement and in the interest of operating the Seller Facilities and the Fraser Mill Complex so as to optimize thermodynamic efficiencies, Seller may, solely for the purposes of determining Capacity Factor in any month and the amount of energy delivered in any month and subject to Sections 4.3 and 4.5, deliver energy from the combined output of the Seller Facilities and the Seller's 12.5 MW generator located within the Fraser Mill Complex known as Generator Unit #3. The provisions of this paragraph shall in no way affect the Seller's obligations under this Agreement including, without limitation, the Seller's obligation to:

- i) demonstrate the Maximum Capacity of the Seller Facilities as a separate, stand alone generator in accordance with Section 2.3 of this Agreement; or
- ii) demonstrate the Seller Facilities' capability to produce and deliver Dedicated Capacity in accordance with Section 2.3 of this Agreement at any time during the term of this Agreement.

4.2 Delivery of Energy by the Seller

The Seller will make all arrangements necessary to deliver energy to the Delivery Point, at the Seller's expense.

The Seller will submit to NB Power as soon as possible after the signing of this Agreement the detailed design, plans and specifications for the interconnection protection devices required for the Seller Facilities to interconnect with NB Power Facilities for approval by NB Power which approval shall not be unreasonably withheld. The Seller will not make any material change in any such plan or specification once it has been approved by NB Power unless such change has also been approved by NB Power which approval shall not be unreasonably withheld. NB Power will assume no responsibility for the adequacy of any design, or any plan or specification or alteration thereto notwithstanding that it has approved such design, plan, specification or alteration. Such approval by NB Power will not relieve the Seller of any liability.

The Seller agrees to conform with NB Power operating instructions which are not, and shall not be, substantially different from those applicable to NB Power owned facilities. NB Power shall provide such operating instructions to Seller as required from time to time.

The Seller agrees to notify NB Power's Energy Control Center before any scheduled connection or disconnection of the Seller Facilities to or from NB Power's system.

The Seller agrees to prepare for the delivery of capacity and energy hereunder and to supply, erect and maintain at its own risk, cost and charge, all transformers, switchgear, protective equipment, Remote Terminal Units and, subject to Section 2.2, telecommunications equipment necessary to interface with NB Power as well as poles, wires, hardware, cables, fittings, insulators and materials required to deliver capacity and energy to the Delivery Point, including but not limited to, substation facilities, security fencing and metering equipment.

In addition to the foregoing, the Seller agrees to provide, own and maintain on the Seller side of the Delivery Point any equipment including telecommunication facilities, which NB Power deems necessary from time to time, acting reasonably, during the continuance of this Agreement for the safe and secure operation of NB Power Facilities in accordance with Good Utility Practice. All the said equipment of the Seller will be

subject to the approval of NB Power which approval shall not be unreasonably withheld and will be installed, maintained and operated in a manner satisfactory to NB Power in accordance with Good Utility Practice.

4.3 Acceptance of Energy by NB Power

Subject to Sections 4.6 and 8.1, NB Power will accept and purchase all of the Seller's energy, up to the level associated with Dedicated Capacity, made available at the Delivery Point. Additionally, energy produced by the Seller prior to the Commencement Date of Operation and energy delivered at a rate in excess of the Dedicated Capacity is considered surplus ("Surplus Energy") and will be, when possible, accepted and purchased by NB Power and paid for in accordance with Section 5.4 provided such Surplus Energy cannot be used within the Fraser Mill Complex.

4.4 Energy Production Schedule

Prior to October 31 of each year, the Seller will provide NB Power with its best projection of operational activities of the Seller Facilities, including planned maintenance shutdowns, for the following Contract Year. Planned maintenance shutdowns of Seller Facilities shall be at a time selected by Seller, provided that, to the extent reasonably practical, Seller will co-ordinate with NB Power the timing of such shutdowns so that they occur at a time acceptable to NB Power.

Prior to November 30 of each year, NB Power will review with the Seller a schedule of expected energy purchases for the upcoming Contract Year.

4.5 Acceptance of Capacity by NB Power

Subject to Sections 4.6 and 8.1, NB Power will accept all of the Dedicated Capacity and associated energy made available at the Delivery Point.

4.6 Dispatch

NB Power reserves the right to dispatch the Seller's output below the Dedicated Capacity and down to the Minimum Capacity in effect at such time for up to 1000 hours per year. Except in an emergency or under other special circumstances when shorter notice may be provided, NB Power will provide at least 12 hours notice of dispatch.

The Parties may mutually agree to dispatch Seller Facilities to zero MW from time to time. Where reasonably practical in light of NB Power's projected power requirements, NB Power may agree that Seller Facilities be dispatched to zero MW during the July 1 and Labour Day holidays.

NB Power shall not dispatch the Seller Facilities below Dedicated Capacity for less than 6 hours duration at any time. The Seller will have up to one hour prior to the beginning of the period of dispatch to decrease production to the Dispatch Level. Such 1 hour period shall, for the purpose of calculating Capacity Factor, be considered time during which the Seller Facilities were dispatched.

The Seller will have a period of up to 6 hours from the end of the period of dispatch in which to resume full production. Such 6 hour period shall, for the purpose of calculating Capacity Factor, be considered time during which the Seller Facilities were dispatched.

During any period of dispatch, Seller shall not use energy in excess of the Dispatch Level to supply the Fraser Mill Complex. For greater certainty and notwithstanding the provisions of Sections 5.2 and 5.3 of this Agreement, during any period of dispatch NB Power will not pay for any energy delivered to the Delivery Point in excess of the Dispatch Level, nor will Seller be credited for such excess energy in the calculation of Capacity Factor.

4.7 Back-up Energy Supply

NB Power agrees to provide a backup supply to the Seller Facilities for use by the Seller at those times when the Seller Facilities are not supplying energy to NB Power. The rate for such backup supply will be determined by NB Power prior to Commencement Date of Operation. Amounts of energy purchased pursuant to this Section 4.7 shall not for any purpose be included in the Maximum Monthly Demand under the Power Contract.

ARTICLE V

PAYMENT FOR CAPACITY AND ENERGY PRODUCED BY THE SELLER

5.1 Payment

NB Power will read the meters at the Metering Points on the last day of each month. Within five working days of reading the meters, NB Power will provide the Seller with a statement containing the capacity and energy readings for the month, the date and time of the readings, and the corresponding amounts payable, including any applicable taxes (ie. Federal Goods and Services Tax), calculated in accordance with Sections 5.2, 5.3 and 5.4.

Payment in respect of such month shall be made in Canadian funds and will be due on the same date as payment is due for capacity and energy supplied by NB Power to the Seller for such month under the Power Contract. Payment will be made by wire transfer to a financial institution and account thereat specified by the Seller in writing to NB Power.

Interest on overdue amounts will be payable at a rate per annum equal to the Prime Lending Rate in effect from time to time of the Bank of Montreal, or other mutually agreed upon Canadian Chartered Bank, as its benchmark rate for Canadian dollar loans in Canada. Interest shall be compounded monthly and shall accrue from the date upon which payment was due until the date of payment.

Notwithstanding the foregoing, the Parties agree that payments due under this Agreement for any month shall be applied against payments due under the Power Contract for such month and that only the net amount owing, if any, is payable under this Agreement.

5.2 Capacity Payment

A capacity payment is to be paid monthly for the Dedicated Capacity made available by the Seller to NB Power.

The Capacity Payment will be determined in accordance with the following formulae;

5.2.1 Winter Period:

Monthly Capacity		
Payment	= 150% of CC	(for C.F. > 90%)
	= [3.75 (C.F. - 50)]% x CC	(for 50% < C.F. ≤ 90%)
	= 0	(for C.F. ≤ 50%)

Within four months after March 31 of each year, NB Power will provide Seller a written report setting forth:

- (i) the Capacity Factor for each of the months in the most recently completed Winter Period;
- (ii) the Capacity Payment made by NB Power in accordance with this Section 5.2.1 for each of the months in the most recently completed Winter Period;
- (iii) the average of the actual monthly Capacity Factors of the months in the most recently completed Winter Period; and
- (iv) the average of the actual monthly Capacity Factors of the twelve-most recent Winter Period months; provided that if there are not twelve Winter Period months since the Commencement Date of Operation then such average shall be calculated based on the Capacity Factors for such lesser number of Winter Period months.

If the use of the greater of the numbers calculated in accordance with paragraphs (iii) and (iv) of this Section 5.2.1 as the Capacity Factor for any month in the most recently completed Winter Period would result in a Capacity Payment greater than the Capacity Payment previously paid by NB Power in respect of such month, the Capacity Payment for such month will be adjusted to equal such greater amount. NB Power shall make payment to Seller of the difference between the adjusted amount and the amount previously paid in respect of such month together with interest thereon as provided in Section 5.5 contemporaneous with providing the report described above.

5.2.2 Summer Period:

Monthly Capacity

Payment	= 75% of CC	(for C.F. > 70%)
	= [3.75 (C.F. - 50)]% x CC	(for 50% < C.F. ≤ 70%)
	= 0	(for C.F. ≤ 50%)

Within four months after March 31 of each year, NB Power will provide Seller a written report setting forth:

- (i) the Capacity Factor for each of the months in the most recently completed Summer Period;
- (ii) the Capacity Payment made by NB Power in accordance with this Section 5.2.2 for each of the months in the most recently completed Summer Period;
- (iii) the average of the actual monthly Capacity Factors of the months in the most recently completed Summer Period;
- (iv) 90% of the average of the actual monthly Capacity Factors of the 36 calendar months ending March 31, provided that if there are not 36 months since the Commencement Date of Operation and prior to March 31 such average shall be calculated based on the Capacity Factors for such lesser number of months.

If the use of the greater of the numbers calculated in accordance with paragraphs (iii) and (iv) of this Section 5.2.2 as the Capacity Factor for any month in the most recently completed Summer Period would result in a Capacity Payment greater than the Capacity Payment previously paid by NB Power in respect of such month, the Capacity Payment for such month will be adjusted to equal such greater amount. NB Power shall make payment to Seller of the difference between the adjusted amount and the amount previously paid in respect of such month together with interest thereon as provided in Section 5.5 contemporaneous with providing the report described above.

5.3 Energy Payment

NB Power agrees to pay a monthly energy payment equal to the sum of:

- (a) the Fuel Component multiplied by the amount of energy (in kWh) delivered by Seller to NB Power at the Delivery Point during such month up to the amount of energy associated with Dedicated Capacity; plus
- (b) the Operation and Maintenance (O&M) component multiplied by the sum of i) the amount of energy (in kWh) delivered by Seller to NB Power at the Delivery Point during such month up to the amount of energy associated with Dedicated Capacity and ii) that energy (in kWh) which would have been delivered had the Seller Facilities not been dispatched down by NB Power under Section 4.6;

where

- i) Fuel Component in ¢/kWh for Contract Year Y = $1.993 \times (CPI_{Y-1} / CPI_{94})$,
- ii) O&M Component in ¢/kWh for Contract Year Y = $0.496 + 0.769 \times (CPI_{Y-1} / CPI_{96})$,
- iii) CPI_{94} = CPI for calendar year 1994,
- iv) CPI_{96} = CPI for calendar year 1996, and
- v) CPI_{Y-1} = CPI for calendar year in which the subject Contract Year begins

For sample calculation see Appendix "A".

5.4 Surplus Energy

NB Power will purchase Surplus Energy accepted under the provisions of Section 4.3 at 90% of NB Power's short term avoided cost. NB Power will pay for such energy monthly in accordance with the provisions of Section 5.1.

5.5 Interest on Adjustments

Interest on adjustments to Capacity Payments as provided for in Section 5.2 will be payable at a rate per annum equal to the prime lending rate in effect from time to time of the Bank of Montreal, or other mutually agreed upon Canadian Chartered Bank, as its benchmark rate for Canadian Dollar loans in Canada. Interest will accrue from the

date upon which the Capacity Payment in respect to a month for which an adjustment is made was due in accordance with Section 5.1 until the date such adjustment is paid. Interest will be compounded monthly and shall be payable at the time when each adjustment is made.

ARTICLE VI
CONDITIONS OF SUPPLY

6.1 Capacity Deposit

A capacity deposit in the amount of Cdn \$654,500.00 (calculated as \$17.00 per kilowatt multiplied by the expected 38,500 kilowatt capacity of Seller Facilities) will be paid by the Seller to NB Power within one (1) month after the date of execution of this Agreement.

The capacity deposit may be in the form of cash, an irrevocable letter of credit in a form satisfactory to NB Power issued by a Chartered Canadian bank, bearer bonds issued or guaranteed by either the Government of Canada or the Government of New Brunswick, or surety bonds issued by a duly authorized company.

Subject to Section 6.2, rebate of the capacity deposit will be made at the rate of \$17.00 per kilowatt of Dedicated Capacity designated by Seller in accordance with this Agreement. Any portion of the capacity deposit not subject to refund at the end of the Test Period described in Section 2.3 shall be retained by NB Power. However, notwithstanding the provisions of this paragraph and Section 6.2, the capacity deposit shall be rebated in its entirety if NB Power determines, acting reasonably, that the Seller Facilities cannot be completed because of Force Majeure.

If the capacity deposit is cash, NB Power will refund the deposit as specified above, including interest thereon from the date of deposit to the date of refund compounded semiannually. The interest rate will be the bid rate for two (2) year Government of Canada bonds as at the close of business on the last business day of the month in which the capacity deposit is paid.

In the event the Seller fails to post the capacity deposit as required or otherwise fails to comply with the requirements of this Section, and if such failure is not corrected

within 10 days after NB Power provides written notice to Seller of such failure or default and of its intention to terminate this Agreement, this Agreement will at the option of NB Power become null and void without liability of any description, kind or nature whatever by NB Power to the Seller.

6.2 Non-Performance Payment (Construction)

In the event the Commencement Date of Operation is more than one month but less than 12 months after the Proposed Commencement Date of Operation, exclusive of delays as a result of Force Majeure events during construction, one-twelfth of the capacity deposit will be retained by NB Power for each month the Commencement Date of Operation is after the Proposed Commencement Date of Operation. Partial months will be adjusted on a pro-rata basis.

In the event the Commencement Date of Operation is not achieved within 12 months after the Proposed Commencement Date of Operation, exclusive of delays as a result of Force Majeure events during construction, the entire capacity deposit including accumulated interest will be retained by NB Power and this Agreement, upon not less than thirty (30) days of prior written notice by NB Power to Seller, may be terminated by NB Power provided that if the Commencement Date of Operation occurs prior to the end of such thirty (30) day period, NB Power shall not be entitled to terminate this Agreement as aforesaid.

6.3 Termination

6.3.1 If the Seller fails to perform any obligation under this Agreement, NB Power may give written notice to the Seller that unless the obligation is completely fulfilled within a reasonable period of time, giving consideration to the nature of the default, after receipt of the notice, NB Power shall discontinue the receipt of capacity and energy. If the Seller continues in default in respect of the obligation beyond the period specified in the notice, NB Power may discontinue the receipt of capacity and energy and may refuse to resume receipt of capacity and energy until the Seller has fulfilled its obligation.

6.3.2 If at any time the Seller fails to perform any of its obligations under this Agreement which materially and adversely affects the operation of NB Power's supply system, NB Power may give notice thereof to the Seller, such notice may be given by telephone to

a senior employee of the Seller, and the Seller shall immediately remedy the said failure. In case of continued failure for more than 15 minutes after the notice, NB Power may discontinue the receipt of capacity and energy or any part thereof and shall not be obliged to resume receipt of capacity and energy until the Seller has remedied the failure.

- 6.3.3 If pursuant to Section 6.3.1 or Section 6.3.2 NB Power has discontinued the receipt of capacity and energy by reason of failure of the Seller to perform any of its obligations under this Agreement and the Seller continues in default in respect of the obligation NB Power may, at its option, give written notice to the Seller that unless the obligation is completely fulfilled within a reasonable period specified in the notice (not less than 30 days) after receipt of the notice, this Agreement may be terminated. If the Seller continues in default in respect of the obligation beyond the period specified in the notice, the Agreement will thereupon terminate unless otherwise agreed by NB Power.
- 6.3.4 If pursuant to Section 6.3.3 this Agreement is terminated, the Seller agrees to pay to NB Power liquidated damages. The liquidated damages will be calculated as the difference in monthly charges based on the levelized Capacity Payments provided for herein and those which would have applied had the terms hereof been based on the escalating Capacity Payments set forth under the heading "Escalating Capacity" shown on Appendix "B" attached hereto. The annual discount rate applicable to the calculation of the liquidated damages shall be 8.6%. The balance in this account at termination will be the amount due and payable to NB Power upon termination. A sample calculation is contained in the aforesaid Appendix "B".

An irrevocable letter of credit in a form satisfactory to NB Power issued by a Canadian Chartered bank will be provided by Seller to NB Power as security for the liquidated damages provided for in this Section 6.3.4. The letter of credit will be provided prior to the Commencement Date of Operation and no payment for Dedicated Capacity or energy will be made until the letter of credit is provided. The letter of credit shall be in an amount equal to the maximum liquidated damages payable during the term of the letter of credit. At least thirty (30) days prior to expiration of any letter of credit provided by Seller in accordance with this Section 6.3.4, Seller shall provide NB Power with a replacement letter of credit in a form satisfactory to NB Power. Failure of the Seller to provide such replacement letter of credit shall entitle NB Power to draw upon the existing letter of credit and to hold such amount as security for liquidated damages until Seller provides to NB Power such replacement letter of credit.

6.3.5 For greater certainty the Seller will be considered to be in breach of an obligation under this Agreement if:

- (a) it fails to operate the Seller Facilities as a Co-Generation unit,
- (b) if the Seller Facilities are not primarily fuelled by Biomass Fuel,
- (c) for any reason the Fraser Mill Complex takes electrical capacity and energy from any supplier other than NB Power unless i) Seller or Fraser Paper, Limited is required by operation of law to do so or, ii) if at any time Seller is prohibited by law from providing, or restricted by law as to the quantity it may provide of, electrical capacity or energy or steam to the Madawaska side of the Fraser Mill Complex; or
- (d) it fails to perform any other obligation under this Agreement.

6.4 Characteristics of Supply

The electric power and energy supplied by the Seller at the Delivery Point will be three phase alternating current at the nominal frequency of 60 hertz and at a nominal voltage of 138,000 volts between phases.

6.5 Metering

The Seller will be responsible for a one-time metering charge which will be equal to all the initial costs associated with providing and installing the Metering Equipment.

The Seller will provide at its expense adequate space and facilities on its premises satisfactory to NB Power for the installation and maintenance of the Metering Equipment.

NB Power will own and maintain the Metering Equipment associated with the Seller Facilities and the Seller's Generator Unit #3. All other metering equipment described in Section 1.16 will be owned and maintained by Seller.

In this section reference to Industry Canada, includes any other authority as may from time to time be charged with the responsibility for metering.

If, for any period, the Metering Equipment or any part thereof is not in service, the capacity and energy supplied during such period will be determined by NB Power acting reasonably, after consultation with the Seller from the best information available including, without limitation, past performance of Seller Facilities, readings of Seller's meters, and down time of Seller Facilities.

NB Power will, at least once a year, verify that the accuracy of the Metering Equipment is within the limits specified by Industry Canada.

The Seller may request NB Power to verify the accuracy of the Metering Equipment more often than once a year. If the Seller is not satisfied with NB Power's results, it may request that further verification be made by Industry Canada. In either case, if the Metering Equipment is accurate within the limits specified by Industry Canada, the cost of performing such verification will be paid by the Seller. If the Metering Equipment is inaccurate by more than the limits specified by Industry Canada, the cost of performing such verification will be paid by NB Power, and an adjustment based on the full error of the Metering Equipment will be made in the Seller's invoices for any known or agreed period of inaccuracy. In the absence of such knowledge or agreement, an offsetting adjustment of fifty percent (50%) of the inaccuracy in the Seller's invoices will apply to the period from the date of the last verification to the date when the inaccuracy was discovered.

If, at any time, the Metering Equipment is found to be inaccurate by more than the limits specified by Industry Canada, the Metering Equipment or any faulty components thereof will be promptly replaced, repaired or readjusted by NB Power at NB Power's expense.

ARTICLE VII GENERAL OBLIGATIONS OF SELLER

7.1 Seller's Equipment

The Seller will be responsible for installing and maintaining equipment to protect the Seller Facilities from variations in frequency and voltage or from temporary delivery of other than three phase power.

The Seller's generator shall be equipped with a governor capable of responding to frequency changes. The governor shall have a 4% droop characteristic and shall be maintained in service at all times.

The Seller's generator must be capable of operating at frequencies down to 57.5 hertz. The Seller's underfrequency relays will be set so as not to trip the generator for frequencies above 57.5 hertz.

The Seller agrees that all motors, transformers and other equipment utilized in its installation will conform with Canadian Standards Association requirements, and will be wired, connected and operated so as to avoid detrimental effects on the NB Power Facilities which will adversely affect the adequacy of service to other customers of NB Power.

7.2 Electrical Harmonics

Electrical harmonics will be considered as components of current or voltage whose frequency is some multiple of the 60 hertz fundamental frequency. The Seller will assume the responsibility of direct loss by reason of damages to NB Power Facilities caused by electrical harmonics produced in the Seller Facilities provided that such liability will be restricted to the repair or, if necessary, the replacement or modification of such NB Power Facilities which have been damaged or made necessary by reason of electrical harmonics produced in the Seller Facilities. The Seller agrees to take all reasonable steps to limit the effects of any electrical harmonics which may be produced by the Seller Facilities to a level tolerable to NB Power acting reasonably. NB Power will cooperate with the Seller in the investigation of any harmonic problems and the analysis of corrective measures. NB Power reserves the right to discontinue the receipt of capacity and energy during any period where the reliability of NB Power Facilities is threatened by the presence of electrical harmonics emanating from, or caused by the Seller Facilities.

7.3 Right-of-Way

The Seller agrees to provide and arrange for the necessary right-of-way on the Seller premises for the appropriate NB Power Facilities free of cost to NB Power during the continuance of this Agreement, renewal or renewals thereof, and for six (6) months thereafter, so that NB Power, its servants, workmen and agents may enter upon the

same and build, install and erect, construct, operate, repair and remove any or all of the appropriate NB Power Facilities which, in the opinion of NB Power, are necessary for the receipt of capacity and energy under this Agreement. In the exercise of its rights granted under this Section 7.3 NB Power will not unduly interfere with the Seller's operations. Any changes which the Seller may request NB Power to make in the location of NB Power Facilities will be made at the expense of the Seller.

7.4 Right of Access

Representatives of NB Power appointed for this purpose may, at any reasonable time during the continuance of this Agreement, have access to the Seller's premises for the purpose of inspection, operation, testing, adjustment, repair, alteration, reconstruction, and removal of NB Power Facilities, or for the purpose of inspecting the Seller Facilities and making and retaining copies of records as required for compliance with this Agreement.

7.5 Seller's Responsibility for NB Power Facilities on its Premises

All NB Power Facilities furnished and installed on the Seller's premises will remain the property of NB Power and should such NB Power Facilities be destroyed or damaged from any cause due to the negligence of the Seller or from a fire originating on the Seller premises regardless of cause, the Seller will reimburse NB Power for the cost of replacement or repair.

7.6 Insulation Contamination

For the purposes hereof, contaminants will be considered as foreign matter or substance deposited on insulation components which reduce the value and effectiveness of the insulation and may consist of dust, particles or chemicals either dry or in solution.

The Seller will be responsible for the correction of contamination problems occurring on the Seller Facilities. If contaminants directly and identifiably caused by activities of Seller Facilities accumulate on NB Power Facilities and if, in the opinion of NB Power, such contaminants affect insulating characteristics, Seller will bear the cost of removal of contaminants or replacement of insulation components as deemed necessary by NB Power acting reasonably. Interruptions of service occasioned to correct contamination problems will be, where possible, arranged at a time mutually agreeable

to the Seller and NB Power. Notwithstanding the above, NB Power reserves the right to discontinue the receipt of power and energy at its discretion where the reliability of its system is threatened by the presence of contaminants on insulation components.

ARTICLE VIII
GENERAL RIGHTS AND OBLIGATIONS OF NB POWER

8.1 Interruption of Supply

Except as otherwise provided herein, NB Power will have no liability to the Seller for loss or damage from any failure of receipt of capacity and energy unless such loss or damage is the result of failure by NB Power to exercise Good Utility Practice, provided that in no event will NB Power be responsible for indirect or consequential damage to the Seller.

NB Power will have the right to suspend the receipt of capacity and energy for the purpose of safeguarding life or property, for system security, for making repairs, changes, renewals, improvements or replacements to NB Power Facilities but all such interruptions will be of a minimum duration consistent with the exigencies of the case, and when possible, arranged for a time least objectionable to the Seller and such interruptions will not release the Seller from its obligations pursuant to this Agreement during the period of any such suspensions and to resume the supply of capacity and energy when the facility is restored. When such repairs, changes, renewals, improvements or replacements are of a non-emergency routine nature that can be scheduled in advance by NB Power, NB Power will advise the Seller at least two (2) weeks in advance of such work.

During any interruption of supply occurring under this Section 8.1, Seller will not be entitled to any payment or credit in the calculation of Capacity Factor, in respect of energy which could have been delivered had the interruption not occurred. Notwithstanding the foregoing, however, should such interruption continue for more than 120 hours, all such hours in excess of 120 shall be deducted from both the numerator and denominator in the calculation of Capacity Factor in accordance with the provisions of Section 1.10.

8.2 Removal of Equipment at Termination

NB Power will, at the termination of this Agreement, or within six (6) months thereafter, remove from the Seller's premises the appropriate NB Power Facilities which may have been installed by NB Power for the receipt of capacity and energy under this Agreement, but after the expiration of said six (6) months period all such NB Power Facilities will be at the risk of NB Power and Seller may, at the expense of NB Power, remove from Seller's property such NB Power Facilities or after providing 15 days prior written notice treat such NB Power Facilities as abandoned and take possession and ownership of such property and in which case NB Power hereby renounces any ownership interest therein.

ARTICLE IX
GENERAL PROVISIONS

9.1 Indemnity by Seller

The Seller will indemnify and save harmless NB Power from all loss, damage or injury to persons or property sustained by any third person or persons, including employees of NB Power and the Seller arising from the operation and maintenance of the Seller Facilities, unless such loss, damage or injury results from negligence of NB Power, its agents, servants or employees, provided that the Seller will be given prompt notice of any such claim and will have the exclusive right to defend and settle any such claim with the full cooperation of NB Power in such defense.

The Seller shall carry a minimum of \$5,000,000 liability insurance and shall provide evidence in writing to NB Power that such insurance is in effect prior to the initiation of site construction. If requested the Seller shall provide NB Power with a certificate of insurance.

9.2 Indemnity by NB Power

NB Power will indemnify and save harmless the Seller from all loss, damage or injury to persons or property sustained by any third person, or persons, including employees of the Seller and NB Power, arising from the operation and maintenance of NB Power Facilities, unless such loss, damage or injury results from negligence of the Seller, its

agents, servants or employees, provided that NB Power will be given prompt notice of any such claim and will have the exclusive right to defend and settle any such claim with the full cooperation of the Seller in such defense.

9.3 Limitation of Liability

Notwithstanding any other provision of this Agreement, in no event shall either Party or its suppliers or subcontractors be liable for indirect, incidental, or consequential loss or damage of any nature arising at any time from any cause whatsoever.

9.4 Applicable Law

This Agreement will be governed by and interpreted in accordance with the laws of the Province of New Brunswick.

9.5 Severability

If any clause, provision, or section of this Agreement is ruled invalid by any court of competent jurisdiction, the invalidity of such clause, provision, or section will not affect any of the remaining provisions.

ARTICLE X
FORCE MAJEURE

- 10.1 Each Party hereto will use all due diligence to perform its obligations under this Agreement but conditions may arise which prevent or delay performance by a Party because of causes beyond the Party's reasonable control including, without limiting the generality of the foregoing; flood, earthquake, storm, lightning, or other cataclysmic phenomenon of nature or Act of God, fire, nuclear disaster, explosion, epidemic, war, riot, civil disturbance, labour disruption, strike, sabotage and restraint by court or public authority which by exercise of due diligence and foresight a Party could not be expected to avoid and which, for greater certainty and not in any way limiting the generality of the foregoing, shall during the period during which Seller Facilities are being constructed, include any event which constitutes an event of Force Majeure under the contract entered into between the Seller and the contractor responsible for constructing the Seller Facilities. If a Party is rendered unable to fulfil any obligations

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by reason of such causes (herein "Force Majeure"), it will be excused from performing to the extent it is prevented or delayed from doing so, but will exercise due diligence to correct such inability with all reasonable dispatch, and will not be liable for injury, damage or loss resulting from such inability. However, settlement of strikes and labour disturbances will be wholly within the discretion of the Party having the difficulty and the exercise of such discretion shall not affect a determination that an event of Force Majeure has occurred.

10.2 The Party affected by Force Majeure will:

- (a) immediately notify the other and immediately confirm in writing after the beginning of the occurrence and at the termination of such occurrence; and
- (b) at the request of the other Party, submit confirmation from competent authorities certifying to the reality of the circumstances, facts and dates contained in the notification.

10.3 For greater certainty and notwithstanding anything to the contrary contained in this Agreement:

- (a) Force Majeure does not include:
 - (i) any event or circumstance affecting the cost to the Seller of the supply of Biomass Fuel;
 - (ii) any labour disruption, strike or lockout affecting the supply or delivery of Biomass Fuel to the Seller provided that, notwithstanding any other provision of this Agreement, for the duration of any such labour disruption, strike or lockout Seller may use fuel other than Biomass Fuel to operate Seller Facilities;
 - (iii) any strike or labour disruption involving Seller's employees which does not exceed 120 consecutive hours; provided, however, that should such strike or labour disruption continue for more than 120 hours, all such hours, including the initial 120 hours shall be considered time during which an event of Force Majeure is in occurrence; or

- (iv) any interruption in supply under Section 8.1.
 - (b) Subject to Section 10.3 (c) and Section 10.5, in any month where a Force Majeure event prevents either the delivery or acceptance of capacity and energy for the entire month, any Capacity Payment payable by NB Power for such month shall be based upon a Capacity Factor equal to the average of the actual Capacity Factors for the 36 months (or such lesser period if a 36 month history has not yet been established) immediately preceding the Force Majeure event.
 - (c) NB Power shall not be required to continue to pay Capacity Payments to the Seller in circumstances where an event of Force Majeure has been invoked by either Party and has continued for a period in excess of 180 consecutive days, provided that where the Seller has invoked Force Majeure and the event of Force Majeure exceeded 180 days and thereafter has ended and the Seller recommences performance of its obligations hereunder for a period of fifteen (15) consecutive days, NB Power will again be required to pay Capacity Payments to the Seller in accordance with the provisions of this Agreement in circumstances where a subsequent event of Force Majeure occurs.
 - (d) The Parties shall act in good faith in invoking any particular event as an event of Force Majeure.
- 10.4 The Seller shall obtain policies of fire, all risk, business interruption and other similar insurance available which is reasonable given the nature of its business and in accordance with industry standards. In obtaining such insurance policies, Seller shall take all steps prudently and reasonably necessary to include coverage for loss of Capacity Payments due to an event of Force Majeure to the extent same is available to Seller on commercially reasonable terms. If requested by NB Power, Seller shall provide NB Power with a certificate or certificates of any or all insurance described in this paragraph.
- 10.5 Notwithstanding any other provision of this Agreement, NB Power shall not be required to pay Capacity Payments, nor will Seller be credited for purposes of determining Capacity Factor, in respect to any Force Majeure event for which the Seller has obtained insurance coverage as described in Section 10.4 for loss of Capacity Payments for so long and to the extent Seller receives insurance proceeds to cover the loss of Capacity Payments.

- 10.6 Where Seller invokes the Force Majeure provisions of this Agreement and such Force Majeure event is not rectified within 12 months of its beginning, NB Power may terminate this Agreement upon 30 days written notice to Seller. Upon such termination liquidated damages calculated in accordance with Section 6.3.4 shall become due and payable by Seller to NB Power, provided NB Power shall not be entitled to terminate this Agreement and obtain the liquidated damages in accordance with the provisions of this Section 10.5 if at the end of such 12 month period Seller is diligently and in good faith pursuing a cure to the conditions giving rise to its inability to perform which cure is likely to remedy such conditions.

ARTICLE XI
SUCCESSORS OF PARTIES

11.1 Successors and Assigns

This Agreement will extend to and be binding upon and inure to the benefit of the Parties hereto and their successors and assigns. The obligations under and the benefit of this Agreement will not be assignable by either party without the consent in writing of the other Party. Such consent will not be unreasonably withheld.

ARTICLE XII
NOTICE

12.1 Mode of Delivery

Except as provided by this Agreement or otherwise agreed from time to time, any notice or other communication which is required by this Agreement to be given in writing, will be sufficiently given if delivered personally to a senior official of the Party for whom it is intended or telecopied or sent by registered mail, addressed as follows:

- a) In the case of the Seller to:
Fraser Inc.
Edmundston, NB
E3V 1S9
Attention: The President

- b) In the case of NB Power, to:
New Brunswick Power Corporation
P. O. Box 2000
Fredericton, NB
E3B 4X1
Attention: The Secretary

or delivered to such other person or telecopied or sent by registered mail to such other address as either Party may designate for itself by notice given in accordance with this Section.

Any notice or other communication so mailed will be deemed to have been received on the third business day following the day of mailing or if electronically transmitted will be deemed to have been received on the same business day as the date of the telecopy or if delivered personally will be deemed to have been received on the date of delivery.

Any communication or notice which under this Agreement may be given on an oral basis shall be given to the representative of each Party designated from time to time by that Party for such purpose.

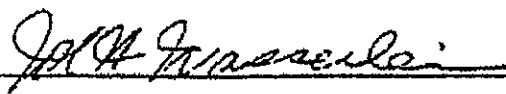
ARTICLE XIII
ENTIRE AGREEMENT

- 13.1 This Agreement and the Appendices A and B hereto attached constitute the Entire Agreement with respect to the subject matter hereof between the parties hereto.

- 34 -

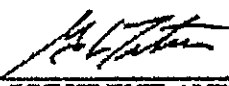
IN WITNESS WHEREOF the Parties hereto have affixed their respective corporate seals, attested by the hands of their respective officers duly authorized in that behalf, as of the day and year first above written.

FRASER INC.

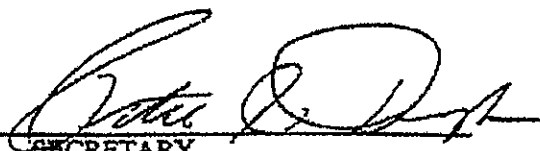





NEW BRUNSWICK POWER CORPORATION



PRESIDENT AND
CHIEF EXECUTIVE OFFICER



SECRETARY

APPENDIX "A"Example Calculation of Energy Payments

CPI data is to be the All Item Consumer Price Index for Canada taken from Statistics Canada Catalogue No. 62-001 where 1986 = 100. Example calculations are provided below based on the following CPI data.

$CPI_{94} = 130.7$ (Actual)
 $CPI_{96} = 136.0$ (Assumption)
 $CPI_{98} = 148.0$ (Assumption)

Rates for contract year beginning December 1, 1996 and ending November 30, 1997:

$$\begin{aligned}\text{Fuel Component} &= 1.993 \times (CPI_{y-1}/CPI_{94}) \\ &= 1.993 \times (CPI_{96}/CPI_{94}) \\ &= 1.993 \times (136.0/130.7) \\ &= 2.074 \text{ ¢/Kwh}\end{aligned}$$

$$\begin{aligned}\text{O\&M Component} &= 0.496 + 0.769 \times (CPI_{y-1}/CPI_{96}) \\ &= 0.496 + 0.769 \times (CPI_{96}/CPI_{96}) \\ &= 0.496 + 0.769 \times (136.0/136.0) \\ &= 0.496 + 0.769 \\ &= 1.265 \text{ ¢/Kwh}\end{aligned}$$

Rates for contract year beginning December 1, 1999 and ending November 30, 2000:

$$\begin{aligned}\text{Fuel Component} &= 1.993 \times (CPI_{y-1}/CPI_{94}) \\ &= 1.993 \times (CPI_{99}/CPI_{94}) \\ &= 1.993 \times (148.0/130.7) \\ &= 2.257 \text{ ¢/Kwh}\end{aligned}$$

$$\begin{aligned}\text{O\&M Component} &= 0.496 + 0.769 \times (CPI_{y-1}/CPI_{96}) \\ &= 0.496 + 0.769 \times (148.0/136.0) \\ &= 0.496 + 0.837 \\ &= 1.333 \text{ ¢/Kwh}\end{aligned}$$

APPENDIX "B"

Sample Calculation of Capacity Account Balance/Liquidated Damages
Based on a 30 Year Contract with a 38.5 MW Unit

Contract Capacity 38500 kW
Annual Discount Rate(i) 8.6 %

Month Jan. 1997	level Capacity	2.7% Escalating Capacity	Rate Differential	Annual Payment Differential	Account Balance Current \$
	a	b	c=a-b	d=cx12x38.5	f=fx(1+i)+d
1	20.34	15.72	4.62	2133305.74	2133305.7
2	20.34	16.15	4.19	1937183.83	4253953.9
3	20.34	16.58	3.76	1735766.64	6355580.5
✓ 4	20.34	17.03	3.31	1528911.17	8431049.9 ✓
5	20.34	17.49	2.85	1316470.62	10472591
6	20.34	17.96	2.38	1098294.16	12471528 2002
7	20.34	18.45	1.89	874228.945	14418306
8	20.34	18.95	1.39	644109.913	16302390
9	20.34	19.46	0.88	407779.721	18112176
10	20.34	19.98	0.36	165068.613	19834891
11	20.34	20.52	-0.18	-84195.694	21458496 2007
12	20.34	21.08	-0.74	-340190.14	22961565
13	20.34	21.65	-1.31	-603096.43	24333183
14	20.34	22.23	-1.89	-873101.2	25552714
15	20.34	22.83	-2.49	-1150396.1	26599851
16	20.34	23.45	-3.11	-1435177.9	27452260
17	20.34	24.08	-3.74	-1727648.9	28085506
18	20.34	24.73	-4.39	-2028016.6	28472843
19	20.34	25.40	-5.06	-2336494.2	28585013
20	20.34	26.08	-5.74	-2653300.7	28390024
21	20.34	26.79	-6.45	-2978661	27852905
22	20.34	27.51	-7.17	-3312806	26935448
23	20.34	28.25	-7.91	-3655972.9	25595924
24	20.34	29.02	-8.68	-4008405.3	23788768
25	20.34	29.80	-9.46	-4370353.4	21464249
26	20.34	30.60	-10.26	-4742074.1	18568100
27	20.34	31.43	-11.09	-5123831.3	15041125
28	20.34	32.28	-11.94	-5515895.9	10818766
29	20.34	33.15	-12.81	-5918546.3	5830634
30	20.34	34.05	-13.71	-6332068.2	0.3097272

Exhibit “E”

EXHIBIT "E"**REVOLVING WORKING CAPITAL LINE NOTE AGREEMENT**

THIS AGREEMENT is made as of July 20, 2005.

BETWEEN:

FRASER PAPERS INC., a corporation governed by the *Canada Business Corporations Act* ("FPI"),

-and-

FRASER PAPERS HOLDINGS INC., a corporation governed by the laws of the State of Delaware ("FPHI"),

WHEREAS, FPHI would like to borrow up to US\$125,000,000 for general corporate purposes;

AND WHEREAS, FPI is willing to lend FPHI up to US\$125,000,000 on the terms set out herein;

NOW THEREFORE, in consideration of the premises and the covenants and agreements herein contained, the parties agree as follows:

ARTICLE 1 – INTERPRETATION**1.01 Definitions**

In this Agreement:

"Agreement" means this agreement, including its recitals and schedule, as amended from time to time.

"Banking Day" means a day on which banks are open for business in Toronto, Ontario.

"Effective Date" means July 20, 2005.

"Interest Payment Date" means ten Banking Days after the end of each Monthly Reporting Period.

"Interest Period" means, initially, the period commencing on the Effective Date and ending on the last day of the Monthly Reporting Period and, thereafter, means the period commencing on the last day of the previous Interest Period and ending on the last day of the next Monthly Reporting Period.

"Monthly Reporting Period" means one of twelve periods in a fiscal year which FPI reports its internal monthly financial results.

"U.S. Federal Prime Rate" means, for each Interest Period applicable to the Loan, a rate of interest *per annum*, calculated on the basis of a 360 day year, equal to the Bank Prime Loan rate, less 250 basis points, as appearing on the U.S. Federal Reserve website, www.federalreserve.gov.

"Loan" means US\$125,000,000, minus the amount of any repayment plus the amount of any redraws made pursuant to Section 2.04 from time to time.

"Termination Date" means July 20, 2015.

"United States Dollars" and "US\$" means the lawful money of the United States of America.

1.02 **Interest Calculations and Payments**

Interest will be calculated using the nominal rate method of calculations, and will not be calculated using the effective rate method of calculation or on any other basis that gives effect to the principal deemed reinvestment of interest. Interest will accrue on overdue interest, if any.

1.03 **Interest Act (Canada)**

For the purposes of this Agreement, whenever interest to be paid hereunder is to be calculated on the basis of a year of 360 days, the yearly rate of interest to which the rate determined pursuant to such calculation is equivalent is the rate so determined, multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by 360.

1.04 **Currency**

All references to currency herein are to United States Dollars.

ARTICLE 2 – THE LOAN

2.01 **Loan**

Subject to the terms of this Agreement, FPHI hereby confirms the issuance of the Revolving Working Capital Line Note to FPI as evidence of the Loan.

2.02 **Interest**

FPHI will pay interest on the Loan during each Interest Rate Period in United States Dollars at a rate *per annum* equal to the Bank Prime Loan rate less 250 basis points *per annum*. Such interest will be payable in arrears on each Interest Payment Date for the period from and including the Effective Date or the preceding Interest Payment Date, as the case may be, but excluding such Interest Payment Date, and will be calculated on the principal amount of the Loan outstanding during such period and on the basis of the actual number of days elapsed divided by 360.

2.03 **Payment**

All payments of principal, interest and other amounts to be made by FPHI to FPI pursuant to this Agreement will be made in United States Dollars for value free and clear of all withholding taxes on the day such amount is due, and if such day is not a Banking Day on the Banking Day next following, by deposit or transfer to the account of FPI designated by FPI for such purpose.

2.04 **Optional Repayment and Re-draw of Principal**

FPHI may at any time and from time to time repay without penalty the whole or part of the Loan. Any amount repaid can be reborrowed subject to section 2.05.

2.05 **Mandatory Repayment of Principal**

FPHI will repay the outstanding amount of the Loan and all other amounts owing hereunder on the Termination Date.

ARTICLE 3 - GENERAL

3.01 Amendments and Waivers

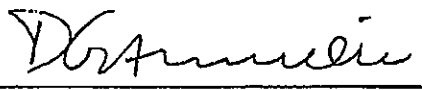
No amendment to this Agreement will be valid or binding unless set forth in writing and duly executed by both parties. No waivers of any breach of any provision of this Agreement will be effective or binding unless made in writing and signed by the party purporting to give the same and, unless otherwise provided, will be limited to the specific breach waived.

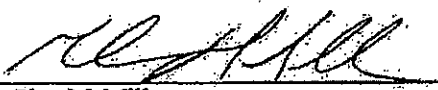
3.02 Governing Law

This Agreement will be governed by and will be construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

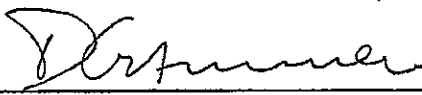
IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set out above.

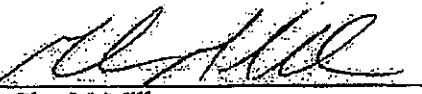
FRASER PAPERS INC.

By: 
 Name: Dominic Gammiero
 Title: President and
 Chief Executive Officer

By: 
 Name: Glen McMillan
 Title: Senior Vice President and
 Chief Administrative Officer

FRASER PAPERS HOLDINGS INC.

By: 
 Name: Dominic Gammiero
 Title: Chairman

By: 
 Name: Glen McMillan
 Title: Secretary

AMENDMENT NO. 1 TO REVOLVING WORKING CAPITAL LINE NOTE AGREEMENT

This Amendment No. 1 to Revolving Working Capital Line Note Agreement dated as of July 20, 2005, by and between Fraser Papers Holdings Inc. ("Borrower") and Fraser Papers Inc ("Lender") (the "Agreement"), is made as of August 27, 2007.

In consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and the Lender hereby agree to amend the Agreement as follows:

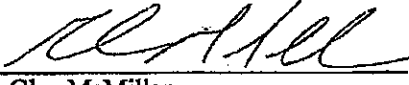
1. The definition of "Interest Payment Date" in section 1.01, is amended to "means ten Banking Days after the end of each calendar year."
2. The definition of "Interest Period" in section 1.01 is amended to "means, initially, the period commencing on the Effective Date and ending on the last day of the calendar year and, thereafter, means the period commencing on the last day of the previous Interest Period and ending on the last day of the next calendar year."
3. The definition of "Monthly Reporting Period" is deleted.

It is understood by the parties involved that this amendment does not change or modify any other rights or obligations under the Agreement.

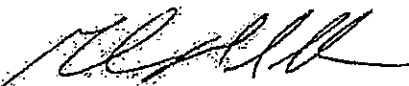
DATED as of August 27, 2007.

FRASER PAPERS INC.

By: 
 Name: Dominic Gammiero
 Title: Chairman

By: 
 Name: Glen McMillan
 Title: Senior Vice President and
 Chief Financial Officer

FRASER PAPERS HOLDINGS INC.

By: 
 Name: Glen McMillan
 Title: Secretary

By: 
 Name: Marina Mueller
 Title: Assistant Secretary

Exhibit “F”

EXHIBIT "F"

FraserPapers

ANNUAL REPORT 2008

Corporate Profile

Fraser Papers is an integrated specialty paper company that produces a broad range of specialty packaging and printing papers. The company has operations in New Brunswick, Maine, New Hampshire and Quebec.

Fraser Papers is listed on the Toronto Stock Exchange under the symbol: FPS.
For more information, visit the Fraser Papers web site at www.fraserpapers.com

Financial Highlights

<i>(US\$ millions, except per share data)</i>	2008	2007	2006
Net sales ⁽¹⁾	\$ 688.6	\$ 714.7	\$ 795.9
EBITDA ⁽²⁾	(33.6)	(41.9)	(7.2)
Loss ⁽²⁾	(71.9)	(43.1)	(113.8)
Total assets ⁽²⁾	510.6	546.2	554.2
Net debt	96.4	85.9	53.9
Number of common shares outstanding ⁽³⁾	50.2	29.5	29.5
Loss per share, basic and diluted ⁽²⁾	\$ (1.48)	\$ (1.47)	\$ (3.86)
Total paper produced (000 tons)	570	608	661

(1) Net sales are gross sales, net of freight costs, commissions, and discounts and rebates to customers.

(2) Prior years adjusted for changes in accounting standards.

(3) Millions of shares.

Contents

Corporate Profile / IFC
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Letter to Our Shareholders / 2
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Management's Responsibility for the Financial Statements / 28
Auditors' Report / 29
Consolidated Financial Statements / 30
Notes to the Consolidated Financial Statements / 34
Directors and Officers of the Company / 47
Corporate Information / IBC

Letter to Shareholders

OVERVIEW

Our business, having half its assets located in eastern Canada as well as exposure to lumber markets and dependence on oil, was not well positioned to absorb the impact from unprecedented input cost inflation and strength in the Canadian dollar during 2008. We acted with a sense of urgency and found ways to become significantly more energy efficient; we expanded internal pulp production to lower costs and reduced purchases of expensive market pulp; we curtailed redundant capacity and cut fixed costs. Finally, we realized higher prices for our paper and pulp products while continuing to grow sales of high value specialty papers. That said, our EBITDA loss of \$34 million, while improved over last year, was unacceptable by any measure.

PROGRESS

Despite the disappointing results, we did take a number of steps forward to permanently position Fraser Papers in a better place for the future.

Cash requirements to support our business and meet our pension funding obligations were significant and we completed a number of financings during the year. With the support of Brookfield Asset Management, we raised C\$60 million of equity from a fully-underwritten rights offering to shareholders, expanded our revolving term facility by \$25 million and secured an additional \$25 million under a separate one year term facility. In addition, the Province of New Brunswick agreed to provide a CAD\$40 million six year term loan to finance upgrades at both our Edmundston pulp mill and our Plaster Rock lumbermill.

We grew our **value-added** paper business. We increased shipments of packaging papers by 11% and high-bright groundwood papers by 35% while reducing sales of commodity papers. The two specialty paper grades are key to our longer term business strategy as we see opportunities to grow in these segments while the broader market trends for many other paper grades are in decline.

We achieved a 7% increase in the average realized price of our paper, equivalent to \$60 per ton. This generated an additional \$34 million in revenue.

Our **pipeline of new products** was expanded and now includes approximately 50 new projects at various stages of development from concept to commercial launch. During the year, we launched a significant number of new products. We estimate the combined benefit from all product mix improvements added \$13 million to our bottom line.

We also **closed the gap in operating performance** that we felt had previously existed with our peers in the industry. Productivity and throughput increased by 6% at the paper mills. Our capital projects at the Edmundston pulp mill provided the returns we expected with a similar 6% improvement in throughput. As the price of oil rose to historic levels, we reduced energy consumption across the Company, saving the equivalent of 120,000 barrels of oil during the year.

The improved operating performance also reflects management operating systems and reporting that are **driving better execution of daily operating plans**. The impact from all productivity and efficiency initiatives in our facilities was approximately \$17 million during 2008.

CONTINUING OPPORTUNITIES

At the end of the year, it was clear that we were facing a new set of challenges from a global recession and credit crisis. We have adapted and our operating priorities for the coming year have become very clear:

- Manage the business for cash to minimize requirements to fund the operations. This means driving out even more costs in the business and taking downtime in our operations, rather than financing inventories as we might have in the past. The three key areas of cost reduction continue to be fibre, energy and labour. The latter issue includes the higher funding requirements for our pension and health benefits.
- Simplify our business processes, expedite decisions and increase our operating flexibility so that we can prioritize and respond quickly to every new opportunity presented to us. We need to take full advantage of being a small company with a flat organizational structure.

- Continue to leave commodity grades of paper for those who have lower cost capacity and focus on new specialty products in packaging and print applications in niche segments where we see growth and an advantage. This especially involves products with "green" attributes through forest certification, recycled content or low carbon footprint.
- Complete the ongoing energy projects that have reduced our exposure to oil. This will ensure we are able to compete when oil prices return to \$80 per barrel or more.

SUMMARY AND OUTLOOK

We expect the coming year to be as challenging as our last two years as the impact of a global recession plays out in the markets in which we compete. Our backlogs slowed sharply in December of 2008 forcing us to take market-related downtime, first on our paper machines and latterly at the pulp mills as well. The pulp and lumber markets were particularly impacted with market prices dropping to cyclical lows. Prices for our paper products have held better, but volumes have not. We expect to operate with significant downtime during the first quarter and look for confidence in the economy to be gradually restored over the remainder of the year.

The benefit from current lower prices for a number of key inputs has already improved our cost structure. When these lower costs are combined with current initiatives, they should provide the opportunity to generate an acceptable margin in our paper business, assuming operations can return to full capacity. Further, with \$350 million of annual expenditures denominated in Canadian dollars, the weakness in the Canadian/U.S. exchange rate has added to the competitiveness of our operations. To mitigate a significant amount of risk related to future volatility in the Canadian dollar, we have bought forward approximately 40% of our 2009 Canadian dollar requirements at approximately 79 U.S. cents.

Given where we are today, we will require additional financing during 2009 to fund our operations, meet our pension funding obligations and refinance the \$25 million term loan facility maturing in September. As conditions remain uncertain in the credit markets, we will have to issue either debt or equity with the support of our shareholders.

In February 2009, the Board appointed Jeff Dutton as President and Chief Operating Officer of the Company. Jeff joined Fraser in 2006 as General Manager of our East Papers operations where he successfully led the turnaround of our core pulp and paper operations. With over twenty years experience in the industry, he has earned the respect of our employees and is well equipped to lead our organization during this challenging time.

We made significant progress in 2008 and remain committed to our business strategy, believing that Fraser Papers can operate as a competitive specialty paper company over the longer term. On behalf of all the employees at Fraser, we acknowledge your patience and support through these difficult years.



J. Peter Gordon
Chief Executive Officer
March 10, 2009

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") presents the factors that had a material effect on our results of operations during the years ended December 31, 2008 and 2007. Also discussed is our financial position as of the end of those periods. This discussion should be read in conjunction with our historical consolidated financial statements as at December 31, 2008 and 2007 and for the years then ended, and the notes thereto. Our consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This MD&A contains forward-looking statements (see "Forward-Looking Information").

The United States dollar is our reporting currency and the functional currency of all our operations. All figures herein are in United States dollars unless otherwise noted.

In this MD&A, "Fraser Papers", "we", "our" and "us" mean Fraser Papers Inc. and all of its subsidiaries while "Company" means Fraser Papers Inc. as a separate corporation. "Brookfield" means Brookfield Asset Management Inc. (a related party by virtue of a controlling equity interest in the Company) and all of its subsidiaries. Brookfield owns approximately 70.5% of all outstanding common shares of the Company.

EBITDA, net debt, net debt to net debt plus equity, free cash flow and cash costs are non-GAAP measures described in the Definitions section. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. There are no directly comparable GAAP measures to any of these measures. A quantitative reconciliation of each non-GAAP measure to the nearest comparable GAAP measure is provided at the end of this MD&A.

INTRODUCTION

This MD&A is intended to provide investors with an understanding of the historical performance of our business, its financial condition and its prospects.

Our fourth quarter 2008 MD&A dated February 5, 2009 relating to our unaudited interim consolidated financial results and notes thereto for the three month period ended December 31, 2008 is specifically incorporated by reference herein.

BUSINESS PROFILE

Fraser Papers is an integrated specialty paper company that produces a broad range of specialty packaging and printing papers. We also produce northern bleached hardwood kraft pulp and dimension lumber. Fraser Papers employs approximately 2,400 people and has operations in New Brunswick, Maine, New Hampshire and Quebec. The geographical breakdown of property, plant and equipment at the end of 2008 was 47% U.S. and 53% Canada.

Principal manufacturing facilities included:

- nine operating paper machines at two paper mills in Madawaska, Maine and Gorham, New Hampshire; additionally, two paper machines at Gorham, New Hampshire are not operating due to market-related conditions.
- one market pulp mill, producing northern bleached hardwood kraft pulp in Thurso, Quebec;
- one integrated pulp operation in Edmundston, New Brunswick, producing bleached softwood sulphite pulp and groundwood pulp; and
- four lumbermills in Plaster Rock and Juniper, New Brunswick and Masardis and Ashland, Maine.

The annual production capacity of these facilities at December 31, 2008 was:

- 650,000 tons of paper, including towel;
- 460 million board feet of lumber;
- 250,000 tonnes of market pulp;
- 270,000 tonnes of internally used sulphite pulp; and
- 120,000 tonnes of internally used groundwood pulp.

In addition, we manage the facilities of Katahdin Paper Company LLC ("Katahdin"), an affiliate of Brookfield, for a management fee.

STRATEGY

Our business strategy continues to be:

- Focusing on **value-added products**, with an emphasis toward specialty applications for packaging, printing and groundwood paper grades;
- Receiving recognition for the value proposition that our **superior customer service and technical support** provide to our customers;
- Continuing **innovation and development of new products** to support ongoing growth of our business;
- Achieving **operating excellence** that surpasses industry benchmarks for manufacturing efficiency, energy consumption and fibre costs at all our facilities; and
- Maintaining a culture focused on **execution and performance**.

In addition to executing this strategy, we will continue to look for opportunities to grow our specialty paper franchise opportunistically, based on value. We have significantly narrowed our operational focus in recent years such that future growth can be specifically targeted to our core business.

Value-added Products

Fraser Papers competes in specific market segments with particular expertise in the manufacture of lightweight freesheet and groundwood papers for a number of specialty applications. Our focus is on select printing and consumer packaging applications. Typically, these discrete market segments are small relative to the broader North American commodity markets and are a good match for our paper machine capabilities and capacities. We focus on markets which are generally between 50,000 to 500,000 tons in size and provide Fraser Papers with the opportunity to have an influential market share. Over time, we seek to grow the volume of business we have in these core paper market segments where we feel we can achieve the best margins. These market segments involve food and other consumer packaging paper grades, financial printing and other lightweight freesheet papers, and specialty high-bright groundwood papers. Fraser Papers has increased shipments of specialty papers from 69% of total paper shipments in 2007 to 74% in 2008.

To better serve our customers' needs, Fraser Papers has the technical capability to produce high quality printing papers as a freesheet or a groundwood product. This enables our customers to receive additional value from Fraser Papers' product offerings.

Superior Customer Service and Technical Support

Fraser Papers' customer service team is continually seeking solutions to customers' needs. We offer vendor managed inventory programs and just-in-time service where quick turnaround solutions are required.

Fraser Papers' technical support team is regularly in our customers' manufacturing locations helping them lower the overall cost of their process that uses our paper, as well as resolving issues unrelated to the paper we sell them.

We work closely with a number of packaging customers to assist them in areas such as improving converting efficiency with new packaging designs and increasing customer production rates to help the customer improve overall performance.

Innovation

Product development continues to be an important component of Fraser Papers' marketing initiatives. Our strategy is to focus on products that bring value from the service and technical features that differentiate us from our competition. We are developing new products in the label and food service markets as well as new technologies for use in our operations in areas of fibre development and pigment optimization.

During 2008, we developed 31 new specialty products for applications in the consumer packaging, financial printing, converting and label papers market segments. We achieved our goal of continually developing new products as approximately 18% of the volume in 2008 represents products that were developed in the past 24 months.

Improved Operating Performance

The manufacture of pulp and paper is a capital intensive business requiring significant investment in large machinery and equipment. It is imperative that these assets perform consistently at a high level in order to ensure the lowest possible cost position. To this end, we have undertaken a number of initiatives expected to lower our operating costs.

- Improved productivity at our sulphite pulp mill in Edmundston, New Brunswick supports our objective of displacing purchased pulp fibre with lower cost internal pulp. In 2008, internal sulphite pulp production at Edmundston averaged a record-setting 688 tons per day, a 41 ton-per-day improvement from the average in 2007.
- Throughput improvements at our Madawaska, Maine paper mill have increased sales volumes. In 2007, the Madawaska paper mill produced 438,000 tons of paper which included 32,000 tons from two paper machines that were permanently shut in the summer of 2007, giving an average of 1,178 tons per day on the remaining six paper machines. In 2008, the mill produced 1,227 tons per day, a 4% relative improvement realized through reliability and efficiency improvements.

- The Gorham, New Hampshire paper mill has also improved its throughput. During 2007 and 2008, the Gorham paper mill indefinitely shut two paper machines. The remaining three paper machines increased throughput by 11% from 323 tons per day in 2007 to 359 tons per day in 2008.
- An oil fired boiler and turbine in the Edmundston, New Brunswick pulp mill, which was traditionally used in the winter, was shut in 2007. In 2008, oil consumption at East Papers was lower by 4.3 million gallons, or 51% compared to 2007, reducing our oil consumption to 0.22 barrels per ton of paper produced and representing annual savings of \$5.4 million.
- A heat recovery system was installed and commissioned at the Thurso, Quebec pulp mill. In 2008, oil consumption at Thurso was lower by 2.3 million gallons or 11% compared to 2007, representing annual savings of approximately \$3.0 million.

Margin Improvements

Fraser Papers' margin improvement initiatives focus on year-over-year improvements in EBITDA assuming constant selling prices, exchange rates and commodity prices. Through focusing on things we can control, Fraser Papers' operating performance improved EBITDA by \$30.2 million in 2008 when compared to 2007. However, 2008 results were negatively impacted by \$10.2 million, primarily due to planned maintenance downtime at the East Papers pulp mill in Edmundston, New Brunswick and an unscheduled maintenance outage at the Thurso pulp mill. Results were also negatively affected in 2007 by \$18.6 million, primarily as a result of planned maintenance outages at East Papers and Thurso.

		2008
		Margin Improvements
<i>(Pre-tax US\$millions)</i>		
Improved sales mix	\$	13.0
Improved energy and chemical efficiency		11.5
Improved fibre and material utilization		3.3
Labour and other cost reductions		2.4
Total	\$	30.2

Margin improvements were derived primarily from improved product mix, energy usage and improved chemical and fibre usage efficiencies. We have continued to optimize our manufacturing processes compared to 2007 through improving machine efficiencies, improving production scheduling and speeding up the paper machines. Paper production per operating day on our nine paper machines is up 6% compared to 2007. We believe that a more efficient operating platform will position Fraser Papers to benefit when demand for paper improves.

These initiatives served to only partially offset significant cost pressures from fibre, energy and chemical pricing and Canadian / U.S. foreign exchange, which totaled \$52.4 million in 2008 compared to 2007.

		2008
		Uncontrollable Pressures
<i>(Pre-tax US\$millions)</i>		
Increased fibre pricing	\$	(14.3)
Increased energy pricing		(14.6)
Increased chemical pricing		(10.2)
Canadian / U.S. foreign exchange		(13.3)
Total	\$	(52.4)

Increased fibre pricing includes the impact of higher costs for logs, chips and purchased pulp. Since Fraser Papers sells and also purchases market pulp, the negative impact of purchased fibre pricing has been partially offset by improved revenue realizations in the pulp operations of \$6.4 million.

Increased energy pricing includes the impact of higher costs for oil, biomass and electricity. The Company has invested capital to reduce our reliance on oil, including the energy reduction projects at East Papers and Thurso. The Company recently approved a capital investment for a biomass boiler at the Plaster Rock, New Brunswick lumbermill to eliminate the use of oil required to dry lumber in the kilns. We also completed a scheduled maintenance and turbine overhaul at the Edmundston cogeneration boiler which improves our energy platform.

In the past, certain chemical prices have trended with the price of oil since many chemical products are petroleum-based. Chemical companies implemented significant price increases during 2008. While oil pricing subsided during the fourth quarter of 2008, chemical prices did not. Fraser Papers is working with suppliers to manage the impact of the increases.

Approximately 53% of Fraser Papers' assets are located in Canada but essentially 100% of our sales are transacted in U.S. dollars. From time to time, the Company will enter into arrangements to fix the exchange rate on certain of its Canadian dollar-denominated cash flows (see "Hedging Activities"). The Canadian dollar exchange rate realized in 2008 was US\$0.95 (after giving effect to the Company's hedging program) compared to the realized US\$0.93 in 2007.

OVERVIEW

We are executing a comprehensive turnaround of Fraser Papers' financial and operating affairs. During 2008, we continued our focus on operational improvement, implemented a number of energy and fibre efficiency initiatives and took downtime at our market pulp mill and lumbermills in an effort to reduce costs. Despite these initiatives to improve Fraser Papers' performance and improved prices of our paper and pulp products, weak lumber markets, high energy prices and a strong Canadian dollar led to negative EBITDA for 2008.

During the last half of 2008, a worldwide credit crisis developed followed quickly by a significant decline in world equity values and reduced economic activity. As a result, it is expected that many of the world's largest economies are currently in a recession. In the fourth quarter of 2008, demand for certain of Fraser Papers' pulp and paper products also fell significantly. Specifically, demand for commodity grades of pulp and paper, certain label papers, lighter-weight printing freesheet papers and high-bright groundwood papers fell as a result of reduced economic activity in the banking and manufacturing sectors. Our packaging papers appear to be less affected by the recent economic downturn.

Our specialty paper business at East Papers is benefitting from investments that have increased internal pulp and paper production, reduced energy consumption and developed and enhanced its specialty product offerings. Sulphite pulp production at the Edmundston, New Brunswick facility set a record daily production rate for the year by producing 688 tons per day, surpassing the 2007 level by 41 tons per day or 6%. The East Papers operations improved paper production by 49 tons per operating day from 2007. Energy efficiency projects in all operations reduced oil consumption by 227,000 barrels; a 32% reduction compared to 2007.

A sharp reduction in global demand for world pulp was experienced in the fourth quarter. Announced worldwide pulp mill closures for 2008 and 2009 are estimated to be in excess of 3 million tonnes of annual capacity. Worldwide hardwood pulp inventories increased to 60 days resulting in significantly reduced pricing. As a result, we were forced to take market-related downtime at the Thurso pulp mill and expect further downtime in 2009.

Fraser Papers' lumber operations have seen a significant reduction in demand over the past 18 months as North American housing starts fell throughout 2007 and 2008. The continued weak housing markets have depressed demand for lumber and other building products. Our lumber operations, which are an essential source of softwood fibre for our core pulp and paper operations in the form of wood chips and biomass fuel, operated at only 44% of capacity and continue to generate negative earnings. Under current market conditions, over 50% of the lumbermills in Eastern Canada are shut, reducing the available supply of woodchips and putting upward pressure on the price of this key input for our business.

Fraser Papers continues to focus on achieving better performance across all operations with improvements in throughput, process efficiencies and the lowest possible cost structure in order to produce paper that we can sell profitably into growing market segments.

Summary of Quarterly Results

<i>(US\$millions, except per share amounts)</i>	Net Sales	Earnings/(Loss)	Earnings/(Loss) per share <i>(basic and diluted)</i>
2008			
4th Quarter	\$ 165.5	\$ (15.9)	\$ (0.32)
3rd Quarter	162.1	(21.3)	(0.42)
2nd Quarter	180.3	(15.6)	(0.31)
1st Quarter	180.7	(19.1)	(0.44)
2007			
4th Quarter ⁽¹⁾	186.3	(20.3)	(0.69)
3rd Quarter ⁽¹⁾⁽³⁾	172.3	24.7	0.84
2nd Quarter ⁽¹⁾⁽²⁾	181.7	(37.6)	(1.28)
1st Quarter ⁽¹⁾	174.4	(9.9)	(0.34)

(1) Prior year quarters' Earnings/(Loss) adjusted for accounting change related to inventory (see "Changes in Accounting Policy").

(2) The second quarter 2007 loss and loss per share include a one time restructuring charge of \$12.8 million (after tax, \$0.43 per share).

(3) The third quarter 2007 earnings and earnings per share include a one-time gain on the sale of our interest in Acadian Timber Income Fund of \$38.4 million (after tax, \$1.08 per share), additional restructuring charges of \$3.7 million (after tax, \$0.13 per share) and a one-time tax recovery of \$13.8 million (\$0.47 per share).

Select Annual Information

(US\$millions, except per share amounts)	For twelve months ended or as at December 31		
	2008	2007 ⁽¹⁾	2006 ⁽²⁾
Net sales	\$ 688.6	\$ 714.7	\$ 795.9
Earnings/(Loss)	(71.9)	(43.1)	(113.8)
Earnings/(Loss) per share	(1.48)	(1.47)	(3.86)
Total assets	510.6	546.2	554.2
Total liabilities	226.3	253.3	222.3

- (1) The twelve months ended or as of December 31, 2007 include a one-time gain on the sale of our interest in Acadian Timber Income Fund of \$38.4 million (after tax, \$1.08 per share), restructuring charges of \$15.9 million (after tax, \$0.54 per share) and a one-time tax recovery of \$13.8 million (\$0.47 per share).
- (2) The twelve months ended or as of December 31, 2006 include included a one-time impairment charge against the Company's investment in Smart Papers LLC of \$111.4 million (after tax, \$3.66 per share) and a one-time charge for the closure of the Berlin pulp mill of \$50.3 million (after tax, \$1.70 per share).

RECENT DEVELOPMENTS

Rights Offering

In January 2008, the Company completed a rights offering and issuance of common shares to its shareholders (the "Offering"). Under the Offering, the Company issued 20,656,913 common shares for aggregate proceeds of \$59.7 million. Common shares outstanding at the conclusion of the offering were 50,166,789. The net proceeds from the Offering were used to repay drawings under the Company's credit facility.

In satisfaction of its commitment under a standby purchase agreement, Brookfield purchased a total of 18,813,241 common shares under the Offering, increasing their ownership interest in the Company to approximately 70.5% of the total number of common shares outstanding.

Increased capacity under revolving credit facility

In April 2008, the Company increased its revolving credit facility by \$25.0 million to a maximum \$115.0 million. In addition, the term of the facility was extended for an additional three-year period, to expire in April of 2011.

In support of the increased credit facility, Brookfield provided a guarantee of up to \$25.0 million of the Company's borrowings under the facility. The Company has agreed to pay a guarantee fee and to provide Brookfield with a fixed first charge over certain of the Company's property, plant and equipment while the guarantee is outstanding.

New Term Loan Facility

In June 2008, the Company entered into a CAD\$40.0 million secured loan arrangement with the province of New Brunswick to support the upgrade of Fraser Papers' facilities in the province.

The CAD\$40.0 million term loan can be drawn at any time before December 31, 2014 and is repayable over five years starting in March, 2010. The term loan is secured by a first charge on Fraser Papers' fixed assets in New Brunswick and bears interest at a fixed rate of 4.7%. Proceeds are targeted toward fixed asset upgrades in the province and included the modernization of the Plaster Rock, New Brunswick lumbermill and upgrades for the Edmundston, New Brunswick co-generation facility and sulphite pulp mill.

New Credit Facility

In September 2008, the Company secured a one-year, \$25.0 million term loan with a Canadian chartered bank. Proceeds of the loan were used to repay indebtedness under the Company's revolving credit facility.

In support of the credit facility, Brookfield provided a guarantee of the Company's borrowings under the facility. The Company has agreed to pay a guarantee fee and to provide Brookfield with a fixed first charge over certain of Fraser Papers' property, plant and equipment while the guarantee is outstanding.

East Papers Optimization

In 2007, the Company announced strategic initiatives at the East Papers operations to lower costs and continue to focus our manufacturing capability toward specialty papers with the permanent closure of two high cost freesheet paper machines at our Madawaska, Maine paper mill. These closures reduced the operating capacity of that mill by 70,000 tons or 15%. These closures were consistent with our strategy of focusing on value-added products and surpassing industry benchmarks for efficiency by transferring specialty freesheet to more efficient paper machines at the Madawaska facility.

As a result of the closures, the Company recorded a restructuring charge of \$15.9 million of which \$9.2 million is related to property, plant and equipment and spare parts inventory and other costs of \$6.7 million.

Sale of Acadian Timber Income Fund

During 2007, the Company sold its interest in Acadian Timber Income Fund ("Acadian") for proceeds of \$38.4 million. A gain of \$38.4 million was recorded on the sale.

Repayment of Senior Notes

During 2007, the Company closed a tender offer to repay \$84.0 million in principal amount of its outstanding 8.75% Senior Notes ("Notes"). The Company repaid \$68.5 million of Notes to the public and cancelled \$15.5 million of Notes held by the Company. The repayment was financed, in part, through a temporary \$50.0 million increase in the Company's revolving credit facility with its current lender. A write-down of deferred financing costs of \$1.6 million, related to the repayments under the tender offer, has been reflected in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows.

KEY FACTORS AFFECTING OUR BUSINESS

Fraser Papers' operations and financial results are influenced by a number of factors, some of which we can control and some of which are outside of our control. A full discussion of the risks of the business is provided in the Company's Annual Information Form which is available at www.sedar.com.

Cyclical Business

In general, the Forest Products industry is highly cyclical characterized by periods of rising demand, supply shortages and rapidly rising market prices, leading to increased production and increased capital investment until new capacity and supply exceed demand. Those periods are then typically followed by periods of reduced market prices and excess capacity until the cycle is repeated.

Fraser Papers' strategy is to concentrate on products for which we can establish sustainable competitive advantage. We believe that, by concentrating on products that are related to high quality and extensive product qualification requirements, we lessen the threat of competitive substitution and benefit from certain barriers to market entry. By focusing our mix on value-added products with narrow technical specifications we also believe that we mitigate some of the cyclical risks. We accentuate our strengths by having small, flexible paper machines, by being a leader in developing high quality specialty packaging and paper grades and by providing superior customer and technical service. Our focus is to increase our market share in the specialty packaging and printing businesses such as those used in food packaging, labeling and financial printing.

Competitive Environment

The Forest Products industry is highly competitive. Our paper, pulp and lumber businesses compete directly with some of the leading manufacturers in the world. In order to differentiate Fraser Papers from our competition, we strive to provide excellent customer and technical service; focus on products which add value for our customers; and make products where we can leverage our unique manufacturing capabilities. Our sales force and technical service departments work very closely with our customers to ensure that Fraser Papers' products meet the customer's highly technical and operational needs and bring value to their process.

Product Demand

We have experienced decreased demand for some of our products as a result of electronic substitution. The growing use of electronic transmission and document storage alternatives has affected market demand for printing and writing papers. U.S. uncoated freesheet demand declined steadily from 2003 through 2008, reflecting the impact of electronic substitution, among other things. In addition, our pulp business must compete with an increasing supply of, and in some cases customer preference for, foreign sources of pulp such as eucalyptus pulps produced in Asia and South America. Our focus is to increase our market share in the specialty packaging and printing paper products and specialty pulp.

Declining product demand may cause us to temporarily shut down our mills if product prices fall to a level where mill operation would be uneconomical. Moreover, we may be required to temporarily suspend operations at one or more of our mills to bring production in line with market demand. During such temporary shutdowns, we may continue to expend capital to maintain the mill and equipment. We may also incur significant labour costs as a result of a temporary shutdown if we are required to give employees notice prior to any layoff or to pay severance for any extended layoff. Furthermore, temporary shutdowns may adversely affect our future access to skilled labour, as employees who are laid off may seek employment elsewhere. Given the costs involved in a temporary shutdown of our operations, we may instead choose to continue to operate those operations at a loss, which could have a material adverse effect on our financial position and results of operations.

Cost Control

Fraser Papers' cost structure is highly dependant upon securing competitive pricing and ensuring efficient usage of raw material and energy inputs. Changes in these cost inputs can have a material effect on our results. To help mitigate some of the cost pressures, we have long-term fibre supply contracts for wood, we have balanced our market pulp requirements with internal production capacity, we focus on reducing input consumption rates and, from time to time, we have hedged commodity prices.

Fraser Papers' margin improvement plan concentrates on the usage of raw materials and discretionary spending. In 2008, we created \$30.2 million of margin improvements compared to 2007 costs by focusing on improving our sales mix and energy optimization. We significantly reduced oil consumption which reduces our dependence on high cost oil.

Foreign Currency Risk

With 53% of Fraser Papers' property, plant and equipment located in Canada and essentially 100% of our sales denominated in U.S. dollars, we are exposed to fluctuations in foreign exchange rates. Changes in these exchange rates could have a material effect on our results of operations. To mitigate these effects, the Company hedges both cash flow and balance sheet exposure when appropriate.

RESULTS OF OPERATIONS AND RELATED INFORMATION

Financial Results

Net sales for 2008 were \$688.6 million, which was a decrease compared to the net sales of \$714.7 million in 2007 due to declining lumber markets and paper machine closures partially offset by improved pulp and paper revenues.

Loss for 2008 was \$71.9 million compared to a loss of \$43.1 million in 2007. This \$28.8 million decrease in relative performance was primarily as a result of a \$38.4 million pre-tax gain on the sale of Acadian and a \$13.4 million income tax recovery in 2007 partially offset by a \$15.9 million pre-tax restructuring charge in 2007 and \$8.3 million in improved EBITDA in 2008.

Summary financial data

	Twelve months ended December 31	
(US\$millions)	2008	2007 ⁽¹⁾
Net sales	\$ 688.6	\$ 714.7
EBITDA ⁽¹⁾	(33.6)	(41.9)
Pre-tax gain on sale of Acadian	—	38.4
Pre-tax restructuring charge	—	(15.9)
Income tax recovery	0.1	13.4
Earnings/(loss)	(71.9)	(43.1)

(1) Prior year's EBITDA adjusted for accounting change related to inventory (see "Changes in Accounting Policies").

The Company generated negative EBITDA of \$33.6 million in 2008 compared to negative EBITDA of \$41.9 million in 2007. The improved EBITDA in 2008 is from improved selling prices for paper and pulp, productivity improvements and cost reductions. However, paper and pulp markets at year-end 2008 were declining.

Summary results from operations

Twelve months ended December 31

	2008	2007⁽³⁾
Fraser Papers Inc.		
EBITDA ⁽¹⁾ (US\$millions)	(33.6)	(41.9)
Paper operations		
EBITDA ⁽¹⁾ (US\$millions)	(9.7)	(19.7)
Less: Impact of outages	(7.2)	(13.6)
Adjusted EBITDA ⁽²⁾	(2.5)	(6.1)
Adjusted EBITDA Margin (\$ per ton)	(4)	(10)
Adjusted Average Cash Cost ⁽¹⁾ (\$ per ton)	972	933
Pulp operations		
EBITDA ⁽¹⁾ (US\$millions)	(10.7)	(0.2)
Less: Impact of outages	(3.0)	(5.0)
Adjusted EBITDA ⁽²⁾	(7.7)	4.8
Adjusted EBITDA Margin (\$ per ton)	(37)	21
Adjusted Average Cash Cost ⁽¹⁾ (\$ per ton)	588	530
Lumber operations		
EBITDA ⁽¹⁾ (US\$millions)	(13.2)	(22.0)
EBITDA Margin (\$ per Mfbm)	(68)	(68)
Average Cash Cost ⁽¹⁾ (\$ per Mfbm)	312	342

(1) See "Definitions" section.

(2) Adjusted EBITDA has been adjusted for outages.

(3) Prior year's EBITDA adjusted for accounting change related to inventory (see "Changes in Accounting Policy").

Paper operations generated negative EBITDA of \$9.7 million compared to negative EBITDA of \$19.7 million in 2007. The 2008 and 2007 results included major planned outages at the Edmundston sulphite pulp mill and cogeneration facility as well as planned outages at the Madawaska and Gorham paper mills costing \$7.2 million in 2008 and \$13.6 million in 2007. After adjusting EBITDA for the outages, paper operations generated an EBITDA loss of \$2.5 million in 2008 and an EBITDA loss of \$6.1 million in 2007. Adjusted EBITDA improvement of \$3.6 million was due to improved revenue realization for paper shipments partially offset by higher energy prices and the effect of the stronger Canadian dollar.

Pulp operations generated negative EBITDA of \$10.7 million in 2008 compared to negative EBITDA of \$0.2 million in 2007. The 2008 results included an unscheduled maintenance outage at the Thurso pulp mill costing \$3.0 million. The 2007 results included a major planned maintenance outage at the Thurso pulp mill totaling \$5.0 million. After adjusting EBITDA for the outages, pulp operations generated an EBITDA loss of \$7.7 million in 2008 and EBITDA of \$4.8 million in 2007. The adjusted EBITDA decrease of \$12.5 million was due to higher energy prices, the effect of the stronger Canadian dollar and market-related downtime taken in the fourth quarter of 2008, partially offset by improved revenue realization for pulp shipments in the early part of 2008.

Lumber operations generated an EBITDA loss of \$13.2 million in 2008 compared to a loss of \$22.0 million in 2007. Significant downtime was taken at the lumber mills during 2008 to minimize operating losses while supporting the lowest cost option for providing woodchips to the Edmundston pulp mill.

Operating Results

Fraser Papers operates one business segment comprised of 11 paper machines at two locations, one market pulp facility, two internal pulp facilities and four lumbermills.

Products include paper (including specialty packaging and printing papers, commodity freesheet papers, specialty high-bright groundwood papers, commodity groundwood papers and towel), as well as hardwood pulp and softwood lumber.

Paper Operations

We own and operate a paper mill in Gorham, New Hampshire and an integrated pulp and paper facility in Edmundston, New Brunswick/Madawaska, Maine ("East Papers").

	Twelve months ended December 31	
	2008	2007 ⁽⁴⁾
Sales (US\$millions)	564.2	552.8
EBITDA (US\$millions) ⁽¹⁾	(9.7)	(19.7)
EBITDA (\$ per ton)	(17)	(34)
EBITDA margin ⁽²⁾	(2%)	(4%)
Shipments (000 tons)		
Specialty packaging	80	72
Specialty printing	205	234
Commodity freesheet papers	47	68
Specialty high-bright groundwood	131	97
Commodity groundwood	60	78
Towel	41	39
	564	588
Average Revenue Realized (\$ per ton)		
Specialty packaging	1,207	1,148
Specialty printing	1,050	987
Commodity freesheet papers	910	853
Specialty high-bright groundwood	889	859
Commodity groundwood	798	717
Towel	896	800
Weighted Average (\$ per ton)	985	922
Average Cash Operating Cost (\$ per ton)	985	956
Reference Prices (\$ per ton) ⁽³⁾		
50# offset rolls	912	832
22.1# white directory	750	740

(1) See "Definitions" section.

(2) EBITDA Margin is EBITDA as a percentage of Sales.

(3) Reference prices are from RISI, Inc. ("RISI").

(4) Prior year's EBITDA adjusted for accounting change related to inventory (see "Changes in Accounting Policies").

Our business strategy is to target market segments where we can achieve a meaningful or leadership position and where we can match our technical competencies with the demand for lightweight specialty freesheet and groundwood papers. In 2008, we had approximately 74% of our paper sales that fit this description, and the strategy is to transition the balance into new or existing specialty packaging, printing or groundwood products.

Average selling prices for pulp and paper increased in 2008 compared to 2007, however, pulp and paper markets weakened with the general economy in the fourth quarter of 2008. Fraser Papers took market-related downtime on paper machines to balance inventories against customer orders in December 2008 and January 2009. The market-related downtime was focused primarily on commodity products. We believe that over the longer term, the specialty nature of our paper products will help to position Fraser Papers better than many other companies in the paper industry.

Specialty packaging products are typically used for food applications and include both stain resistant and non-stain resistant qualities. Fraser Papers has the ability to meet narrow technical standards for applications such as pet food bags and dry mix consumer pouches and bags. With our focus on new products and applications, specialty packaging volumes increased by 8,000 tons over 2007. Specialty packaging pricing for 2008 increased by \$59 per ton compared to 2007 due to general market price increases and growth in the high value packaging segments.

Specialty printing papers include coated and uncoated freesheet products that are characterized by narrow technical

specifications and niche applications including labeling and thermal point-of-sale receipts as well as lightweight opaque grades for financial printing applications. Fraser Papers' specialty printing volumes were 205,000 tons in 2008 representing a decrease from 234,000 tons in 2007. A portion of the decrease was attributable to certain applications switching to our high-bright groundwood papers that offer better value and the balance reflects the permanent shutdown of 70,000 tons of capacity at East Papers in 2007. Fraser Papers' technical capabilities, which provide the opportunity to manufacture both freesheet and groundwood papers from the same facility, have allowed us to assist our customer base in this transition.

We continue to narrow our focus toward higher margin specialty packaging and printing paper products in strategic markets. For 2008, commodity freesheet volume, which represents only 8% of total shipments, has decreased by 31% compared to 2007.

Specialty high-bright groundwood papers include products that are used for financial printing and other publishing applications where high performance and superior print quality are required. In 2008, specialty high-bright groundwood shipments were 131,000 tons which is a 35% increase from 2007 shipments of 97,000 tons. This increase is indicative of certain applications migrating from freesheet products to high-bright groundwood products and new product applications.

Compared with 2007, Fraser Papers' shipments of commodity groundwood products in 2008 decreased by 18,000 tons as we increased the volumes of specialty high-bright groundwood grades.

Twelve months ended December 31, 2008 compared to twelve months ended December 31, 2007

In 2008, the paper operations had negative EBITDA of \$9.7 million on sales of \$564.2 million. This compares to negative EBITDA of \$19.7 million in 2007 on sales of \$552.8 million. Adjusting for the major planned maintenance outages in 2008 of \$7.2 million, the paper operations generated negative EBITDA of \$2.5 million in 2008. Adjusting for the major outages in 2007 of \$13.6 million, the paper operations generated negative EBITDA of \$6.1 million in 2007. The \$3.6 million increase in adjusted EBITDA was due to higher mill net realizations, increased internal pulp and paper productivity and reduced energy consumption.

Shipments in 2008 were 24,000 tons lower than last year as improved paper machine productivity partially offset the capacity closures equivalent to 70,000 of annual production.

Pulp Operations

We own and operate a NBHK market pulp mill in Thurso, Quebec.

	Twelve months ended December 31	
	2008	2007
Sales (US\$millions)	75.0	72.9
EBITDA (US\$millions) ⁽¹⁾	(10.7)	(0.2)
Pulp EBITDA (\$ per tonne)	(51)	(1)
EBITDA Margin ⁽²⁾	(14%)	0%
Shipments (000 tonnes) ⁽³⁾	209	234
Average Revenue Realized (\$ per tonne) ⁽³⁾	584	555
Average Cash Operating Costs (\$ per tonne)	602	551
Reference Price (\$ per tonne) ⁽⁴⁾		
NBHK market pulp	788	719

(1) See "Definitions" section.

(2) EBITDA Margin is EBITDA as a percentage of Sales.

(3) Pulp volumes and average revenues realized include internal sales.

(4) Reference prices are from RISI's Pulp & Paper Week.

The pulp market experienced some dramatic swings during 2008. World pulp demand grew by 4% in the first half of 2008; however, due to the slowing economy, demand in the second half of 2008 declined by 9%. As a result, hardwood pulp inventories grew to 60 days compared to 35 days which indicate a balanced market. For the year, the average benchmark price increased \$69 per tonne to \$788 per tonne; however, the December benchmark price declined to \$665 per tonne.

We direct a portion of our market pulp for internal use. Fraser Papers also purchases softwood kraft pulp from third parties to supplement internal production. With improved internal pulp production at the Edmundston pulp mill in 2008, net pulp sales amounted to 52,000 tonnes for the year.

Twelve months ended December 31, 2008 compared to twelve months ended December 31, 2007

The pulp operations generated negative EBITDA of \$10.7 million in 2008 on sales of \$75.0 million. This compares to the previous year's negative EBITDA of \$0.2 million on sales of \$72.9 million. Revenues increased by \$2.1 million due to higher average pricing with the full year benchmark pricing higher by 10%. The EBITDA decrease of \$10.5 million is primarily due to cash costs increasing 9% to \$602 per tonne compared to \$551 per tonne in 2007. Increased oil pricing and wood fibre costs, the effect of the stronger Canadian dollar and the unplanned and market-related downtime were partially offset by lower oil consumption.

Shipments declined by 25,000 tonnes primarily from the poor pulp market conditions experienced in the second half of 2008 and market-related downtime.

Lumber Operations

Our lumber operations are comprised of four lumbermills located in Plaster Rock, New Brunswick; Juniper, New Brunswick; Ashland, Maine; and Masardis, Maine.

	Twelve months ended December 31	
	2008	2007
Sales (US\$millions)	49.4	89.0
EBITDA (US\$millions) ⁽¹⁾	(13.2)	(22.0)
EBITDA (\$ per Mfbm)	(68)	(68)
EBITDA Margin ⁽³⁾	(27%)	(25%)
Shipments (MMfbm)	193	324
Average Revenue Realized (\$ per Mfbm)	252	273
Average Cash Operating Cost (\$ per Mfbm)	312	342
Reference Price (\$ per Mfbm) ⁽²⁾		
Boston SPF 2X4 #2&Bfr	301	324

(1) See "Definitions" section.

(2) Reference prices are from Random Lengths.

(3) EBITDA Margin is EBITDA as a percentage of Sales.

Market conditions deteriorated significantly for our lumber operations during 2008. Average benchmark lumber prices (Eastern Boston SPF 2X4) decreased 7% or \$23 per Mfbm from 2007. Consequently, the Company's net revenue realized decreased 8% compared to 2007 with the continued softness in U.S. housing activity where annual construction starts have fallen from their peak of an annualized 2.3 million in January 2006 to an annualized 0.55 million in December 2008; a 76% decline.

In 2008, we took market-related downtime at all of our lumbermills: 46 weeks at Ashland, Maine; 37 weeks at Juniper, New Brunswick; 25 weeks at Plaster Rock, New Brunswick and one week at Masardis, Maine. This equates to a total of 110 weeks of lumbermill market downtime in 2008. The lumber business operated at 44% of capacity in 2008.

In 2007, we also took market-related downtime at all of our lumbermills: 11 weeks at Ashland, Maine; 22 weeks at Juniper, New Brunswick; 20 weeks at Plaster Rock, New Brunswick and two weeks at Masardis, Maine. This equates to a total of 54 weeks of lumbermill market downtime in 2007. The lumber business operated at 69% of capacity in 2007.

We continue to evaluate our lumbermill operating schedule in reference to the availability of cost effective woodchips for our pulp operations in Edmundston, New Brunswick.

Twelve months ended December 31, 2008 compared to twelve months ended December 31, 2007

The lumber operations generated negative EBITDA of \$13.2 million in 2008 on sales of \$49.4 million. This compared to negative EBITDA of \$22.0 million in 2007 on sales of \$89.0 million. Weak market conditions (with benchmark prices reduced by 7%) and lower selling prices continued; however, cash costs have been reduced by \$30 per Mfbm.

Shipments declined by 40% in 2008, compared to 2007, due to market-related downtime.

CRITICAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses during the period. Significant estimates include the determination of the carrying value and useful lives of property, plant and equipment, provisions for employee future benefits and future income tax assets and liabilities. Actual results could differ from those estimates.

The restructuring charge booked against the assets of the two paper machines permanently closed in 2007 was based on significant estimates due to the inherent uncertainty in net recoverable amounts we will receive when we sell those assets. Also, the provision for liabilities associated with the Smart Papers restructuring in 2006 was based on estimates of future cash flows under a most likely scenario. Future events may differ from the most likely scenario used by the Company.

From time to time, Fraser Papers will review the carrying value of long-lived assets to determine whether the carrying value of those assets is appropriate. Significant estimates are used in determining the expected future cash flows associated with those assets. While those cash flows are determined using reasonable assumptions, those cash flows are subject to future events and circumstances which could differ materially from management's estimate of those cash flows.

Revenue recognition

Net sales are net of freight costs, commissions, discounts and rebates and are recognized when the title and risks of ownership pass to the purchaser. This generally occurs when goods are shipped. Sales are governed by contract or by standard industry terms. Revenue is not recognized prior to the completion of those terms. The majority of product is shipped via third party transport on an FOB shipping basis. In all cases, product is subject to quality testing to ensure it meets applicable standards prior to shipment.

Inventories

Inventories of raw materials and operating and maintenance supplies are valued at the lower of cost and net realizable value, with cost determined on an average cost basis.

Inventories of finished goods are valued at the lower of cost and net realizable value, with cost determined on an average cost basis. Cost includes direct material, direct labour and an allocation of overhead.

Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated on a straight-line basis. The rates of depreciation are intended to fully depreciate manufacturing and non-manufacturing assets over the following periods which approximate their useful lives:

Buildings	20 to 40 years
Lumbermills and lumber production equipment	10 to 15 years
Paper and pulp mill machinery and production equipment	20 years
Logging machinery and equipment	4 to 10 years

These periods are regularly assessed to ensure that they continue to approximate the useful lives of the related assets.

Financial Instruments

The Company uses derivative financial instruments solely for the purpose of managing foreign exchange and commodity price exposures. These activities are governed by the Board of Directors' approved financial policies that cover risk identification, measurement and reporting. Derivative transactions are executed only with approved counterparties under master netting agreements. Derivative contracts, which are deemed to be highly effective in offsetting changes in the fair value or cash flows of hedged items, are designated as hedges of specific exposures and accordingly, all gains and losses on these instruments are recognized in the same manner as the item being hedged.

Future Income Taxes

Future income tax assets and liabilities are determined based on temporary differences between the carrying amount and tax basis of assets and liabilities as well as certain carry-forward items. Future income tax assets are recognized only to the extent that, in the Company's opinion, it is more likely than not that the future income tax assets will be realized. This opinion is based on certain estimates and assumptions. If these estimates or assumptions change in the future, the Company could be required to reduce or increase the value of the future income tax assets resulting in income tax expense or recovery. The Company evaluates its future income tax assets periodically.

Defined Benefit Pension Plans

Fraser Papers' defined benefit pension plans are funded in accordance with all applicable regulatory requirements. Fraser Papers' obligations under our defined benefit pension plans are determined periodically through actuarial valuations, which are the basis for calculating pension expense. The weighted average assumed return on assets is 8.00% and is based on management's best estimate of the long-term expected rate of return on plan assets, including consideration of asset mix, equity risk premium and active investment management premium. The weighted average discount rate used to value year-end 2008 accrued benefit obligations is 6.18% and is based on the market yield of high-quality corporate bonds of similar duration to the pension plan liabilities.

Significant changes in assumptions, driven by changes in financial markets, asset performance different from the assumed rate of return, significant new plan enhancements, acquisitions, divestitures, changes in the regulatory environment, and the measurement uncertainty incorporated into the actuarial valuation process could materially affect Fraser Papers' future plan assets, accrued benefit obligations, pension expense and pension contributions.

Stock-Based Compensation

The Company accounts for stock options using the fair value method. Under this method, compensation expense for options is measured at the grant date using the Black-Scholes option pricing model based on certain estimates and assumptions and is recognized on a straight-line basis over the vesting period. If estimates or assumptions change in the future, the Company could be required to reduce or increase contributed surplus, resulting in compensation expense or recovery.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted new recommendations of the Canadian Institute of Chartered Accountants ("CICA") related to inventories. Under the new recommendations, spare parts inventory which has a useful life of more than one year must be classified as a long-lived asset and amortized over its estimated useful life. Previously, the Company classified certain of these spare parts as inventory and charged them to operations when put in use. The change in policy has been applied retroactively. As a result, the Company has reversed certain amounts charged to operations prior to January 1, 2007 and reclassified certain inventory items to property, plant and equipment on the consolidated balance sheets. These adjustments resulted in an increase to property, plant and equipment of \$3.2 million, a decrease in inventories of \$0.7 million, an increase in future income tax liabilities of \$0.4 million and a decrease in opening deficit as at January 1, 2007 of \$2.1 million. In addition, the Company has restated its 2007 results of operations in order to reflect this change in policy. These adjustments resulted in a reduction in the consolidated loss of \$2.7 million and \$0.6 million for 2008 and 2007 respectively, compared to if the Company had not changed its policy.

International Financial Reporting Standards

The Accounting Standard Standards Board ("AcSB") confirmed in February 2008 that Canadian public companies will adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. Early adoption is permissible. The Company is currently assessing the impact and date it intends to adopt IFRS.

Impact of Adoption of IFRS

IFRS are premised on a conceptual framework similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. As the Company continues to evaluate the impact of adoption of IFRS on its processes and accounting policies, updated disclosure will be provided where appropriate. While the adoption of IFRS will not have a material impact on the reported cash flows of the Company, it is expected to have a material impact on the Company's consolidated balance sheets and consolidated statements of operations and deficit.

Property, Plant and Equipment

Under International Accounting Standard ("IAS") 16 *Property, Plant and Equipment*, an entity is required to account for each class of property, plant and equipment using either the cost model or the revaluation model. The cost model is generally consistent with Canadian GAAP where an item of property, plant and equipment is carried at its original cost, less accumulated depreciation and accumulated impairment losses. Under the revaluation model, each item of property, plant and equipment is revalued on a periodic basis and carried at its revalued amount, less any accumulated depreciation and accumulated impairment losses.

Impairments

Under Canadian GAAP, for assets other than financial assets, a write-down to estimated fair value is recognized if the estimated undiscounted future cash flows from an asset or group of assets are less than their carrying value. Under IAS 36, *Impairment of Assets*, assets must be written down to their recoverable amount, (determined as the higher of a) the estimated fair value less costs to sell or b) value in use), if the recoverable amount is less than the carrying value. Unlike Canadian GAAP, IAS 36 requires the reversal of an impairment loss where the recoverable amount exceeds the previously written down carrying value.

Employee Benefits Plans

Under Canadian GAAP, actuarial gains and losses on employee benefit plans are deferred and amortized over the expected average remaining service life ("EARSL") of the employee group. In addition, accrued pension benefit obligations and plan assets for defined benefit pension plans are required to be disclosed in the notes to the consolidated financial statements. Under IAS 19, *Employee Benefits*, on transition to IFRS, an entity may elect to recognize the obligation in excess of plan assets on the balance sheet as a liability, recognizing unamortized actuarial gains or losses directly in equity. Future actuarial gains and losses could be recorded as a direct charge to equity or amortized over EARSL.

Share-Based Payment

The Company issues stock-based awards in the form of stock options that vest evenly over a five-year period. Under Canadian GAAP, the Company recognizes the fair value of the award, determined at the time of the grant, on a straight-line basis over the five-year vesting period. Under IAS 19, the fair value of each option is determined with respect to when it vests as well as when it is issued. As such, the fair value of each vested tranche is considered a separate option grant. The expense associated with each grant is recognized as compensation expense over the term of its respective vesting period. Accordingly, this will result in a faster recognition of the cost of each option issuance than under Canadian GAAP.

First-time Adoption of International Financial Reporting Standards

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, provides guidance for the initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS standards effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and limited optional exemptions in specified areas of certain standards from this general requirement. The Company is currently evaluating the exceptions and exemptions under IFRS 1 and will provide updated disclosure when available.

LIQUIDITY AND CAPITAL RESOURCES

	Twelve months ended December 31	
(US\$millions)	2008	2007
Cash flow from operating activities before changes in working capital	(55.5)	(65.4)
Cash flow from operating activities after changes in working capital	(45.9)	(48.2)
Total working capital ⁽¹⁾	115.4	116.9
Capital investments	27.1	20.3
Net debt	96.4	85.9
Net debt to net debt plus equity	25%	23%
Maximum borrowings under revolving credit facility	115.0	140.0
Revolving credit facility utilized	86.7	123.9

(1) Total working capital includes accounts receivable, inventory and accounts payable and accrued liabilities.

Operating Cash Flows

During 2008, cash flow from operations before changes in working capital was an outflow of \$55.5 million compared to an outflow of \$65.4 million during 2007. The \$9.9 million decrease was primarily the result of improved EBITDA and reduced employment benefit plan funding (see "Employee Benefit Plans").

During 2008, net change in non-cash working capital was an inflow of \$9.6 million compared to an inflow of \$17.2 million during 2007. Accounts receivable were reduced in 2008 by \$31.2 million compared to a decrease of \$7.1 million in 2007. The reduced accounts receivable were due to increased collection efforts and lower paper and pulp sales in the fourth quarter of 2008. On January 29, 2009 the Company announced the sale of approximately 10,500 tons of finished goods paper inventory to Brookfield for proceeds of approximately \$11.7 million. Proceeds on the sale were used to repay amounts owing on the Company's revolving credit facility. In addition, the Company has agreed to supply paper to Brookfield through July 31, 2009 at market prices, less a customary merchant's discount of 3.5%. Fraser Papers will provide sales and administrative support to Brookfield. Accounts payable in 2008 decreased by \$28.4 million compared to an increase of \$20.1 million in 2007 as a result of maintenance outages and market-related downtime in December 2008.

The Company's ability to generate positive future cash flows is dependent upon many factors including market pricing for our products. Fraser Papers continues to focus on initiatives that will reduce fixed costs, improve efficiencies and optimize the use of raw materials. We have also increased the selling price for certain of our products during 2008. We believe these initiatives will position Fraser Papers to benefit as costs return to historic levels resulting in improved operating cash flows.

Investing Cash Flows

For 2008, capital investments totaled \$27.1 million compared to \$20.3 million in 2007. During 2008, investments were made: in the Edmundston sulphite pulp mill, cogeneration facility and recovery boiler; in the modernization of the Plaster Rock, New Brunswick lumbermill; and, to address productivity issues at the Edmundston sulphite pulp mill. Capital investments in 2007 included the planned rebuild of the recovery boiler at the Edmundston pulp facility. Funding for these capital expenditures was supported primarily from available liquidity sources (see "Financing Cash Flows").

In 2008, a CAD\$17.5 million capital investment for the modernization of our Plaster Rock, New Brunswick lumbermill was announced that will include the installation of a biomass boiler and upgrades to the lumbermill's sawing and kiln equipment. Spending on the project in 2008 was CAD\$2.8 million for major equipment procurement. The remaining investment will occur in 2009 with the expected completion in the summer of 2009. Funding for this project will be supported primarily from available liquidity sources, including a term loan facility with the province of New Brunswick (see "Financing Cash Flows").

Financing Cash Flows

Liquidity requirements in 2008 to fund maturing debt and negative free cash flow were provided from a rights offering, an increase in the Company's revolving credit facility and a \$25.0 million term credit facility. Each of these facilities was strongly supported by the Company's largest shareholder. Additionally, the Company secured CAD\$20.0 million in borrowings under the term loan facility with the province of New Brunswick.

In January 2008, the Company completed a rights offering and issuance of common shares to its shareholders (the "Offering"). Under the Offering, the Company issued 20,656,913 common shares for aggregate proceeds of \$59.7 million. Common shares outstanding at the conclusion of the Offering were 50,166,789. The net proceeds from the Offering were used to repay drawings under the Company's credit facility.

In April 2008, the Company increased its revolving credit facility by \$25.0 million to a maximum \$115.0 million. In addition, the term of the facility was extended for an additional three-year period, to expire in April of 2011. In support of the increased credit facility, Brookfield provided a guarantee of up to \$25.0 million of the Company's borrowings under the facility. The Company has agreed to pay a guarantee fee and to provide Brookfield with a fixed first charge over certain of Fraser Papers' property, plant and equipment while the guarantee is outstanding.

Total borrowings under the revolving credit facility at December 31, 2008 were \$48.2 million. In addition, the Company had utilized \$38.5 million of the facility in support of letters of credit.

In September, 2008, the Company secured a one-year, \$25.0 million term loan with a Canadian chartered bank. Proceeds of the loan were used to repay indebtedness under the Company's revolving credit facility. In support of the credit facility, Brookfield provided a guarantee of the Company's borrowings under the facility. The Company has agreed to pay a guarantee fee and to provide Brookfield with a fixed first charge over certain of Fraser Papers' property, plant and equipment while the guarantee is outstanding.

In June 2008, the Company entered into a CAD\$40 million secured loan arrangement with the province of New Brunswick to support the upgrade of Fraser Papers' facilities in the province. The CAD\$40 million term loan can be drawn at any time before December 31, 2014 and is repayable over five years starting in March, 2010. The term loan is secured by a first charge on Fraser Papers' fixed assets in New Brunswick and bears interest at a fixed rate of 4.7%. Proceeds are targeted towards fixed asset upgrades in the province and included the modernization of the Plaster Rock, New Brunswick lumbermill and upgrades to the Edmundston, New Brunswick co-generation facility and sulphite pulp mill.

Net debt as of December 31, 2008 was \$96.4 million, resulting in a net debt to net debt plus equity ratio of 25%. The Company believes that its conservative capital structure is appropriate given the long lives of its productive assets. The Company currently has debt of \$25.0 million which is due in September, 2009. The Company is exploring its options with respect to re-financing this debt maturity which include additional issuances of debt and/or equity capital. Fraser Papers is dependent upon the continued support of Brookfield to support certain of its long term debt obligations, including Brookfield's guarantee of debt maturing in 2009.

Seasonal Cash Flow Requirements

Quarterly results are affected by certain seasonal factors such as market demand and the impact of weather on logging activities.

Market demand varies seasonally for certain products such as financial printing papers. The peak of the financial printing season is in the first and second quarters of the year. Since shipping volume during the peak financial season exceeds our production capacity in certain grades, we build inventory prior to the financial printing season in order to supply our customers' needs. The build of financial printing paper inventory will have a negative effect on cash flows from operations after changes in working capital in the quarter of inventory build, but will have a positive effect in the quarter of inventory reduction.

Weather causes seasonal variation in certain raw materials. During spring, seasonal rainfall creates poor ground conditions in the timberlands which reduce logging activities. In anticipation of this mud season each spring, Fraser Papers will build log inventories to provide adequate supply of fibre until ground conditions improve. The build of inventory will have a negative effect on cash flows from operations after changes in working capital but will have a positive effect in the quarter of inventory reduction.

EMPLOYEE BENEFIT PLANS

Fraser Papers has five registered pension plans in three jurisdictions: two plans in the province of New Brunswick, two plans in the province of Quebec and one plan in the United States. In 2008, we filed actuarial valuations for the two plans in New Brunswick and the plan in the United States. In 2009, we are required to file actuarial valuations for one plan in New Brunswick and the plan in the United States. The two plans in the province of Quebec require an actuarial filing no later than December 31, 2009 although the province may require an actuarial valuation at their discretion. The second registered pension plan in the province of New Brunswick requires an actuarial filing no later than December 31, 2010. Pension regulators in various jurisdictions are considering a number of changes to their pension filing and funding requirements as a result of the significant reductions in pension asset values over the past number of months. The impact of these possible changes on the pension plan funding requirements has not been determined at this time.

Fraser Papers' obligations under our defined benefit pension plans are determined periodically through actuarial valuations, which are the basis for calculating pension expense and determining pension funding. At December 31, 2008, the value of pension plan assets was \$337.3 million, down from \$530.5 million in 2007. Significant declines in capital markets and foreign exchange impact of translating the assets of our Canadian plans into United States dollars accounted for the reduction. The 2008 weighted average rate of return on our defined benefit pension plan assets was negative 21.5%. The weighted average asset allocation of our defined benefit pension plans is 64% equity investments and 36% fixed income investments. The accrued benefit obligation of these plans also fell from \$643.0 million in 2007 to \$508.8 million in 2008. The main reasons were an increase in the discount rate used to discount the obligation and foreign exchange translation.

For 2008, employee benefit plans funding was \$26.0 million, a decrease of \$5.2 million from the 2007 funding level of \$31.2 million. The decreased funding is primarily due to the impact of a one-time, retroactive payment of \$4.2 million in 2007. Fraser Papers has applied for funding relief under current pension regulations in New Brunswick. If we are successful in our application, future funding requirements for certain pension plans could be lower.

Benefit plan expense for 2008 was \$15.2 million compared to the \$13.5 million expense in 2007. The increase is due to a settlement expense of \$1.3 million related to the partial wind-up of a pension plan related to the sale of our New Brunswick timberlands in 2006.

The assumed return on our pension assets is 8.00% and is based on management's best estimate of the long-term expected rate of return, including consideration of asset mix, equity risk premium and active investment management premium. The weighted-average discount rate for the accrued benefit obligations is 6.18% as compared to 5.42% in 2007 and is based on the market yield of high quality corporate bonds of similar duration to the pension plan liabilities.

Significant changes in assumptions, driven by changes in financial markets, asset performance different from the assumed rate of return, benefit changes, acquisitions, divestitures, changes in the regulatory environment, and the measurement uncertainty incorporated into the actuarial valuation process, could materially affect our future plan assets, accrued benefit obligations, and the expenses and contributions associated with our employee benefit plans.

Sensitivity to a 1% increase or decrease in the rate of return on plan assets and the discount rate used to determine our pension obligations is estimated as follows:

	Impact Dec. 31, 2008 Unfunded Liability	Impact on 2008 Pension Expense
Return on assets	\$3.4 million	\$3.4 million
Discount rate	\$55.8 million	\$4.7 million

Our obligations under post-retirement benefit plans are determined periodically through actuarial valuations, which are the basis for calculating post-retirement benefit expense. We fund these plans on a "pay-as-you-go" basis. At December 31, 2008, the accrued benefit obligations of these plans were \$46.8 million compared to \$60.7 million at the end of 2007.

Recent changes in world equity markets and borrowing rates will affect the funded status, funding requirements and pension expense associated with Fraser Papers' defined benefit pension plans. Based on current pension regulations in Quebec, New Brunswick and in the United States, we expect our employee defined benefit plans expense in 2009 will increase by approximately \$13.8 million to \$29.0 million and our employee defined benefit plan funding will increase by approximately \$4.6 million to \$30.6 million as a result of losses in pension assets and no gain from the discount rate.

CONTRACTUAL OBLIGATIONS

The following table presents the total contractual obligations, including purchase obligations which are enforceable and legally binding and employee benefit obligations as of December 31, 2008:

(US\$millions)	Total	Less than one year	One to three years	Four to five years	After five years
Debt	\$ 89.5	\$ 25.0	\$ 51.9	\$ 12.6	\$ —
Operating leases	1.0	0.4	0.5	0.1	—
Purchase obligations	21.8	21.8	—	—	—
Employee benefit obligations	218.3	30.8	77.1	48.9	61.5
Total contractual obligations	\$ 330.6	\$ 78.0	\$ 129.5	\$ 61.6	\$ 61.5

Obligations under operating leases include future payments for office facilities and equipment leases. The purchase obligations are commitments for the purchase of energy and chemical supplies. Employee benefit obligations are accrued defined benefit pension plan and post-retirement benefit plans obligations, in excess of defined benefit pension plan assets.

Brookfield has provided guarantees to the Company's lenders in support of its revolving credit facility and one-year term loan. The maximum amount of the guarantees is \$50.0 million. The Company agreed to pay Brookfield a guarantee fee equal to an annualized rate of approximately 2.0% of the maximum amount of the guarantee and provided Brookfield with a guarantee that it will repay Brookfield any amounts paid by Brookfield to the Company's lenders. As security, the Company has provided Brookfield with a fixed charge on certain of its property, plant and equipment.

Norbord Inc. (the former parent company of Fraser Papers) has provided guarantees for certain obligations of Fraser Papers under a financial commitments agreement. At December 31, 2008, the maximum potential amount of the obligations guaranteed was estimated to be \$1.0 million. These obligations will be fully repaid during the first quarter of 2009. These guarantees have not been included in the table above.

HEDGING ACTIVITIES

From time to time, the Company enters into arrangements to fix the future price for certain products or to fix the exchange rate on certain of its Canadian dollar-denominated cash flows.

As of December 31, 2008, the Company had \$41.0 million in foreign exchange contracts outstanding as fair value hedges against certain Canadian dollar-denominated net monetary liabilities. For 2008, the Company realized \$7.6 million of losses on these contracts and at December 31, 2008, there were \$0.1 million in unrealized losses on these contracts. The gains or losses on fair value hedges are offset by net losses or net gains on the net liabilities being hedged.

As of December 31, 2008, the Company had \$91.5 million in net forward foreign exchange contracts outstanding as a hedge against future net Canadian dollar cash flows. These contracts have varying maturity dates in 2009. During 2008, the Company realized \$4.0 million of losses related to foreign exchange contracts used to hedge Canadian dollar cash flows. At December 31, 2008, the unrealized gains on outstanding contracts amounted to \$3.4 million. After giving effect to the realized losses on these hedges, the average realized exchange rate for 2008 was CAD\$1.00 = US\$0.95 compared to the published average rate of CAD\$1.00 = US\$0.94.

Realized and unrealized gains or losses on Canadian dollar-denominated net liabilities hedges and realized gains or losses on cash flow hedges are recorded in the consolidated statements of operations and deficit, in the same manner as the realized and unrealized gains or losses on the net monetary liabilities and realized gains or losses on cash flows being hedged. Unrealized gains or losses on cash flow hedges are recorded in consolidated statements of other comprehensive income until such time that the Canadian dollar-denominated cash flows being hedged are realized.

Fraser Papers enters into lumber forward contracts to fix the lumber price for a portion of its future production. During 2008, Fraser Papers entered into lumber futures contracts representing 30.8 million board feet of lumber. Some of these contracts were realized in 2008, while others mature in the first quarter of 2009. Accordingly, a realized gain of \$0.7 million has been reported in the consolidated statements of operations for the twelve month period ended December 31, 2008. Unrealized gains of \$0.7 million were recognized in other comprehensive income for the twelve months ended December 31, 2008.

TAXATION MATTERS

As at December 31, 2008, Fraser Papers had tax loss carry-forwards of \$326.4 million in the U.S. and \$71.7 million in Canada. These tax loss carry-forwards expire between 2014 and 2028 and are available to reduce income taxes otherwise payable in future years. The Company has recorded a valuation allowance against the tax loss carry-forwards in the U.S. to the extent that it is not more likely than not that the benefit of the losses will be realized.

In 2007, Brookfield increased its ownership interest in the Company from 49.3% to 56.1%, resulting in an acquisition of control as determined under Canadian income tax laws. Subsequently, Brookfield has increased its ownership interest to approximately 70.5%. The acquisition of control requires that the Company recognize certain unrealized losses for income tax purposes. As a result of recognizing these losses and applying them to prior years in 2007, the Company increased its available non-capital loss carry-forwards in Canada by \$46.8 million and recorded an income tax recovery of \$13.8 million.

ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations relate primarily to closure costs and post-closure maintenance costs for landfills. The liability is reflected in other liabilities on our consolidated balance sheet at the discounted value of expected future cash flows. The liability associated with these obligations is reduced as these obligations are paid and the asset associated with these obligations is depreciated over the estimated useful life of the related facility. The obligations represent estimated future payments of \$28.2 million which have been discounted at a weighted average rate of 8.0%. Total expense for the year related to asset retirement obligations was \$0.8 million compared to \$0.7 million in 2007. In addition to the asset retirement obligations recorded, we may have other obligations in the event of a permanent plant shutdown. However, our plant assets have indeterminate lives and, therefore, the associated asset retirement obligations are not reasonably estimable and liabilities cannot be established.

OFF-BALANCE SHEET ARRANGEMENTS

We have no material off-balance sheet arrangements.

COMMON SHARES

The authorized capital stock of the Company consists of an unlimited number of Class A preferred shares, Class B preferred shares, non-voting participating shares and common shares.

The weighted average number of shares outstanding used for calculating loss per share was 48,445,380 for 2008, an increase of 18,935,504 shares compared to 2007 as a result of the rights offering.

Common share information	December 31, 2008	December 31, 2007
Shares outstanding	50,166,789	29,509,876
Book value	\$5.67	\$9.83
Market price at year-end	CAD\$0.33	CAD\$2.68
Market price at February 5, 2009	CAD\$0.33	

In 2008, the Company issued 20,656,913 shares at a purchase price of CAD\$2.90 per share and received net proceeds of \$59.7 million.

DIVIDENDS

The Company paid no dividends in 2008. The Board of Directors reviews this policy at each of its regularly scheduled meetings.

STOCK BASED COMPENSATION

We account for stock options using the fair value method. Under this method, compensation expense for options is measured at the grant date using an option pricing model and recognized on a straight-line basis over the vesting period. During 2008, the Board of Directors approved the issuance to certain executives of 1,445,000 options with a strike price of CAD\$3.01. During 2007, the Board of Directors approved the issuance to certain executives of 1,015,000 options with a strike price of CAD\$5.99. In 2008 we recognized \$1.2 million in expense related to stock options compared to \$0.9 million in 2007.

The Company has two deferred share unit plans which provide certain directors and senior officers of the Company with an opportunity to invest a portion of their compensation in deferred share units. Deferred share units may be subject to vesting periods. Payments under the plans are made in cash only. The total number of deferred share units outstanding at December 31, 2008 was 666,168. During the year, the Company's obligation under these plans was reduced by \$0.8 million, as the impact of the decline in the Company's share price was greater than the amortized expense of the deferred share units.

TRANSACTIONS WITH RELATED PARTIES

Fraser Papers purchased \$4.8 million of electricity for its Gorham paper mill from Brookfield and its affiliates in 2008, compared to \$5.7 million in 2007.

Fraser Papers has invested in convertible, term, preferred units (the "Units") of Katahdin, an indirectly, wholly-owned subsidiary of Brookfield. The Units earn a preferential cumulative distribution of 5% per annum. Cumulative distributions accrued on this investment amount to \$2.6 million.

During the year, Fraser Papers sold \$1.7 million of goods and services to Katahdin and earned a management fee of \$7.5 million. In 2007, Fraser Papers sold \$3.3 million of goods and services to Katahdin and earned a management fee of \$8.0 million.

The Company entered into a 20 year Fibre Supply Agreement with Acadian. Fibre purchases from Acadian during 2008 were \$26.1 million compared to \$33.6 million in 2007. The Company paid \$1.5 million to Acadian as a fee for administering the Company's Crown Licenses. The Company sold its interest in Acadian on September 26, 2007. Of the 3,613,780 units sold, 2,600,000 were sold to Brookfield for net proceeds of \$27.6 million. During 2007, the Company recognized equity in earnings of Acadian of \$2.3 million and distributions received were \$2.3 million.

Subsequent to December 31, 2008, Fraser Papers announced the sale of approximately 10,500 tons of finished goods paper inventory to Brookfield for proceeds of approximately \$11.7 million. In addition, the Company has agreed to supply paper to Brookfield through July 31, 2009, at market prices less a merchant's discount of 3.5%. Fraser Papers will provide sales and administrative support to Brookfield.

In connection with the Offering, the Company entered into a Standby Purchase Agreement with Brookfield, in which Brookfield agreed to exercise all of its rights and would purchase any common shares not otherwise subscribed for by other shareholders of the Company. As a result, Brookfield paid CAD\$54.6 million to acquire 18,813,241 shares, increasing their ownership interest to 70.5% of the Company.

Brookfield has provided the Company with a facility with a notional amount of \$350.0 million to enter into forward foreign exchange contracts as part of the Company's hedging activities. At December 31, 2008, the Company has entered into forward foreign exchange contracts of \$41.0 million as a hedge against certain Canadian dollar-denominated net monetary liabilities, compared to \$30.2 million in 2007. In addition, the Company holds \$100.3 million under this facility as a hedge against future Canadian dollar cash flows, compared to \$35.2 million in 2007.

The Company has agreed to pay guarantee fees to Brookfield in connection with guarantees to the Company's lenders in support of its credit facilities. The fees are equal to an annualized rate of approximately 2.0% of the maximum amount of the guarantees of \$50.0 million or \$1.0 million per year.

Fraser Papers is dependant on the continued financial support of Brookfield. Without this support, it is possible that we may not be able to secure alternative sources of financing with terms that are satisfactory to us.

MARKET RISKS AND UNCERTAINTIES

Many of Fraser Papers' raw material inputs and supplies are purchased on the open market and as such are subject to market price fluctuations. With the recent reductions in the prices for global commodities, we expect to benefit from these reductions. In particular, Fraser Papers consumes approximately 480,000 barrels of oil per year and purchases approximately 71,000 tonnes of market pulp per year.

Approximately 53% of Fraser Papers' assets are located in Canada while essentially 100% of the sales are U.S. dollar-denominated. Fraser Papers incurs approximately CAD\$360 million per year of Canadian dollar-denominated expenses, and we expect to benefit from the recent weakening of the Canadian currency.

Recent events in world capital markets have made it difficult for many companies to obtain or renew debt financing. Without the continued support of Brookfield, there can be no certainty that Fraser Papers will be able to secure alternative sources of financing with terms that are satisfactory to us.

We are exposed to a number of risks in the normal course of our business that have the potential to affect our operating performance.

Commodity and Price Sensitivity

Our earnings are sensitive to changes in world economic conditions, primarily in North America. Paper, pulp and lumber markets are competitive in nature and prices for many products are sensitive to variations in supply and demand.

Based on the operating levels in 2008, the following table shows the approximate annualized impact on after tax earnings of changes in product prices.

	Sensitivity Factor	Impact on Earnings (US\$millions)	Impact on EBITDA (US\$millions)	Average Mill Nets Q4, 2008
Uncoated freesheet	\$25 per ton	\$ 5.4	\$ 8.3	\$ 1,114
Groundwood paper	\$25 per ton	3.1	4.8	879
Market pulp	\$25 per tonne	0.9	1.4	491
Lumber	\$10 per Mfbm	1.3	1.9	227

Competition

The forest products industry is a highly competitive business environment in which companies compete, to a large degree, on the basis of price. Our principal market is in the U.S. where we compete with North American and, in some instances, foreign producers. Certain competitors may have lower cost facilities than us. Our ability to compete in these and other markets is dependent on a variety of factors such as manufacturing costs, continued free access to markets, customer service, product quality, and currency exchange rates.

Foreign Exchange

We compete within North American markets where product prices are significantly influenced by U.S. dollar exchange rates.

Our foreign exchange exposure arises from the following sources:

- Net Canadian dollar-denominated monetary assets and liabilities.
- Committed or anticipated foreign currency transactions, primarily Canadian dollar costs in our Canadian operations.

The Company's policy is to hedge all significant balance sheet foreign exchange exposures. The Company may hedge a portion of net Canadian dollar-denominated cash flows for periods up to three years in order to reduce the volatility of future Canadian dollar-denominated cash flows. In 2008, we were negatively impacted by the continued strengthening of the Canadian dollar, with an effective average exchange rate, (after giving effect to the Company's hedging program) relative to the U.S. dollar, of US\$0.95 compared to US\$0.93 in 2007 on our approximately CAD\$360 million net Canadian dollar cash flows. We estimate that each U.S. one cent change in the value of the Canadian dollar would have impacted annualized pre-tax losses by approximately \$3.6 million in 2008.

Defined Benefit Pension Plans

Fraser Papers has defined benefit pension plans that are valued based on rate of return and discount rate market assumptions. There is no assurance that the plans will be able to earn the assumed rate of return. Market driven changes may result in changes in the discount rates and other variables which would result in Fraser Papers being required to make contributions in the future that differ significantly from the estimates. There is an inherent measurement uncertainty incorporated into the actuarial valuation process.

Environmental

Our operations are subject to a wide range of general and industry specific environmental laws and regulations relating to air emissions, wastewater discharges, solid and hazardous waste management, plant and wildlife protection, and site remediation.

Compliance with these laws and regulations is a significant factor in our business and we occasionally incur significant capital and operating expenditures in order to maintain compliance with these laws and regulations. Future events such as changes in environmental laws and regulations, increasingly strict enforcement policies or the discovery of previously unknown contamination or other liabilities relating to our properties may give rise to additional costs that could require increased capital expenditures which would reduce the funds otherwise available for operations, capital expenditures, future business opportunities or other purposes.

CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the design and operation of Fraser Papers' disclosure controls and procedures was conducted as of December 31, 2008, by management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Fraser Papers' disclosure controls and procedures as defined in National Instrument 52-109, *Certification of Disclosure in Issuers Annual and Interim Filings*, are effective.

Under the supervision of the CEO and CFO, Fraser Papers has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The CEO and CFO considered the need to disclose in this MD&A any change in Fraser Papers' internal controls over financial reporting that has occurred during the year that has materially affected, or is reasonably likely to materially affect Fraser Papers' internal controls and have not identified any such changes. An evaluation of the effectiveness of the design and operation of Fraser Papers' internal controls over financial reporting was conducted as of December 31, 2008, by management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Fraser Papers' internal controls over financial reporting as defined in National Instrument 52-109, *Certification of Disclosure in Issuers Annual and Interim Filings*, are effective and have not identified any material weakness related to design.

FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information and statements relating but not limited to: anticipated or prospective financial performance; results of operations; future investment in our operations; anticipated growth in target markets; profit margins; business strategy, including product development; our operating platform; energy reduction initiatives; expectations and estimations of future market conditions, including housing starts and home inventories; reduced oil consumption resulting from energy-reduction initiatives; modernization of our Plaster Rock lumbermill; evolving criteria and demand for certain paper grades; seasonal inventory build-up, reduction and the impact on financial results; future pension funding requirements; hedging activities; the Company's liquidity position, including financing requirements; maximum possible amounts under certain guarantees; the adoption of IFRS; and, the expected impact of specific events on financial results in the future.

Forward-looking information typically contains statements with words such as "should", "continue", "toward", "ongoing", "target", "result", "grow", "can", "future", "seek", "will", "achieve", "maintain", "look", "believe", "feel", "estimate", "plan", "possible", "could", "anticipate", "likely", "impact", "would", similar words, or variations of those words that suggest future outcomes. In addition, forward-looking statements may reflect the outlook on future changes in volumes, prices, costs, estimated amounts and timing of cash flows, or other expectations or beliefs, objectives or assumptions about future events or performance. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements.

The significant risks that impact Fraser Papers' business and future performance are discussed in the Annual Information Form as well as the Annual Report and other filings with Canadian securities regulatory authorities. Fraser Papers cautions that the list of risks and factors discussed in those documents may not be exhaustive. Readers should consider those risks, as well as other uncertainties and factors and potential events. Although Fraser Papers believes it has reasonable basis for making the forward-looking statements included in this report, readers are cautioned not to place undue reliance on such forward-looking information.

Fraser Papers undertakes no obligation, except as required by law, to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

The "Outlook" sections that follow in this document are based on Fraser Papers' views and the actual outcome is uncertain.

OUTLOOK

Fraser Papers expects a number of challenging quarters ahead as the effects of a global recession play out in the U.S. economy, and in Fraser Papers' market segments in particular. Business activity slowed sharply toward the end of last year and led to reduced demand for all our products. The pulp and lumber markets were particularly impacted with market prices dropping to extremely low levels. Prices for Fraser Papers' paper products were more stable, but as order files declined, we took downtime across a number of machines, in addition to shutdowns at Thurso and the lumbermills.

Our sales are largely focused in the United States, therefore the outlook for a recovery in Fraser Papers' business will be partly dependent on the success of the recently announced stimulus package and the availability of liquidity to restore both credit and confidence into the economy and, in particular, into our customers and end-markets. Despite taking downtime on paper machines to balance inventories against customer orders in December and January, we built inventories in excess of our near-term requirements. Subsequent to the year end, Fraser Papers sold approximately 10,500 tons of inventory to an affiliate of Brookfield, on customary commercial terms. The proceeds of the sale were used to repay amounts outstanding on the Company's working capital facility. We believe that over the longer term, the specialty nature of our paper products will help to position Fraser Papers to benefit from an economic recovery sooner than many other companies in the paper industry.

The market for northern bleached hardwood kraft pulp produced at our Thurso mill continues to be weak. By the fourth quarter, world pulp inventories had increased to unsustainable levels following a sharp decline in global demand from paper producers. It is expected that further capacity reductions will be required in northern Europe and North America to balance supply and demand, as low cost capacity in South America and Southeast Asia continues to operate.

With no clear signs of recovery in the U.S. housing market, lumber prices are expected to remain depressed for the balance of 2009. We will continue evaluating opportunities to secure low cost woodchips for the paper operations in Madawaska and will operate our lumbermills in support of our integrated paper operations.

Input costs for energy, chemicals and other raw materials have begun to weaken following a period of inflationary pressure. With a significant number of assets located in Canada, which incur Canadian dollar-denominated costs, the weakness in the Canadian currency has helped to improve the competitiveness of those operations. To eliminate a significant amount of risk related to the future volatility in the Canadian dollar, the Company has bought forward approximately 40% of its 2009 Canadian dollar requirements at an exchange rate of CAD\$1.00 = US\$0.79.

We expect to require additional financing during 2009 to fund our operations, pension fund obligations and the maturity of the \$25.0 million term loan facility in September. Given the challenging conditions in the credit markets, we expect that we may have to seek support from our shareholders.

DEFINITIONS

As there is no generally accepted method of calculating the measures outlined below, these measures as calculated by Fraser Papers may not be comparable to similar titled measures reported by other companies.

EBITDA is earnings from continuing operations before interest, taxes, depreciation and amortization, and restructuring charges. EBITDA is presented as a useful indicator of a company's ability to meet debt service and capital expenditure requirements. Fraser Papers interprets EBITDA trends as an indicator of relative operating performance.

Free Cash Flow is the Company's cash flow from operating activities minus capital investments.

Net debt is debt less cash and cash equivalents. Net debt to net debt plus equity is provided as a useful indicator of a company's financial leverage.

Net debt to net debt plus equity is net debt divided by the sum of net debt and shareholders' equity. Net debt to net debt plus equity is provided as a useful indicator of a company's financial leverage.

Cash costs include all cash costs of operations and exclude depreciation and amortization. Cash costs are presented to provide additional information about the cash generating capabilities of Fraser Papers' operations. This measure captures the key costs of operations and is a key performance measure that management uses to evaluate costs at the operations.

EBITDA (US\$millions)	Twelve months ended December 31	
	2008	2007
Profit / (Loss)	\$ (71.9)	\$ (43.1)
Add: Interest expense, net	3.6	6.8
Less: Income tax (recovery)/expense	(0.1)	(13.4)
Less: Gain on sale of Acadian	—	(38.4)
Add: Restructuring charges	—	15.9
Add: Other	—	(0.8)
Add: Depreciation	34.8	31.1
EBITDA	\$ (33.6)	\$ (41.9)

Net Debt (US\$millions)	As at December 31	
	2008	2007
Long-term debt	\$ 64.0	\$ —
Add: Current debt	25.0	—
Add: Bank indebtedness	7.4	4.3
Add: Borrowings under credit facility	—	81.6
Net debt	\$ 96.4	\$ 85.9

Net Debt to Net Debt Plus Equity (US\$millions)	As at December 31	
	2008	2007
Net debt	\$ 96.4	\$ 85.9
Add: Shareholders' equity	284.3	292.9
Net debt plus equity	380.7	378.8
Net debt	\$ 96.4	\$ 85.9
Divided by: Net debt plus equity	380.7	378.8
Net Debt To Net Debt Plus Equity	25%	23%

Free Cash Flow (US\$millions)	Twelve months ended December 31	
	2008	2007
Cash flow from operating activities	\$ (45.9)	\$ (48.2)
Less: Capital investments	(27.1)	(20.3)
Free Cash Flow	\$ (73.0)	\$ (68.5)

Cash Cost (US\$millions)	Twelve months ended December 31	
	2008	2007
Net sales	\$ 688.6	\$ 714.7
Less: EBITDA	33.6	41.9
Cash Cost	\$ 722.2	\$ 756.6

Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements and other financial information have been prepared by the Company's management, which is responsible for their integrity and objectivity, in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based upon estimates and judgements. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances. The financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management is responsible for establishing and maintaining adequate internal controls. Fraser Papers maintains internal controls systems which are designed to permit the accurate and timely preparation of financial statements in accordance with Canadian generally accepted accounting principles.

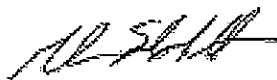
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and reviews the consolidated financial statements and management's discussion and analysis; considers the report of the external auditors; assesses the adequacy of the internal controls of the Company; examines the fees and expenses for audit services; and recommends to the Board the independent auditors for appointment by the shareholders. The Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders.



J. Peter Gordon
Chief Executive Officer

February 4, 2009



Glen McMillan
Senior Vice President and Chief Financial Officer

Auditors' Report

To the Shareholders of Fraser Papers Inc.

We have audited the consolidated balance sheets of Fraser Papers Inc. (the "Company") as at December 31, 2008 and 2007 and the consolidated statements of operations, deficit, comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
February 4, 2009

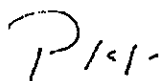
Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Consolidated Balance Sheets

As at December 31 (US\$ millions)	2008	2007 (restated – note 2)
Assets		
Current assets:		
Accounts receivable	\$ 67.9	\$ 99.1
Inventory (note 3)	125.5	124.2
Future income taxes (note 9)	0.3	0.2
	193.7	223.5
Property, plant and equipment (note 4)	256.0	266.2
Other assets (note 5)	60.9	56.5
	\$ 510.6	\$ 546.2
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	\$ 7.4	\$ 4.3
Accounts payable and accrued liabilities	78.0	106.4
Current debt (note 6)	25.0	81.6
	110.4	192.3
Long-term debt (note 6)	64.0	—
Other liabilities (note 7)	48.4	56.1
Future income taxes (note 9)	3.5	4.9
Shareholders' equity (note 10)	284.3	292.9
	\$ 510.6	\$ 546.2

(See accompanying notes)

On behalf of the Board,



Paul E. Gagné, CA
Audit Committee Chair



J. Peter Gordon
Chief Executive Officer

Consolidated Statements of Operations and Deficit

<i>Years ended December 31</i> <i>(US\$ millions, except per share amounts)</i>	2008	2007 <i>(restated – note 2)</i>
Net sales	\$ 688.6	\$ 714.7
Cost of goods sold	700.0	739.5
Selling, general and administration costs	22.2	17.1
Loss before the following:	(33.6)	(41.9)
Gain on sale of equity investee (note 16)	—	38.4
Restructuring charges (note 17)	—	(15.9)
Other	—	0.8
Interest income	0.5	0.5
Interest expense	(4.1)	(7.3)
Loss before depreciation and income taxes	(37.2)	(25.4)
Depreciation	(34.8)	(31.1)
Income tax recovery (note 9)	0.1	13.4
Loss	\$ (71.9)	\$ (43.1)
Loss per share – basic and diluted (note 10)	\$ (1.48)	\$ (1.47)
Deficit		
Balance, beginning of year	\$ (203.0)	\$ (162.0)
Change in accounting policy (note 2)	—	2.1
Loss	(71.9)	(43.1)
Balance, end of year	\$ (274.9)	\$ (203.0)

(See accompanying notes)

Consolidated Statement of Comprehensive Loss and Accumulated Other Comprehensive Income

<i>Years ended December 31 (US\$millions)</i>	2008	2007 <i>(restated – note 2)</i>
Loss:	\$ (71.9)	\$ (43.1)
Changes in unrealized net gains on cash flow hedges	3.0	0.6
Changes in unrealized net gains on lumber hedges	0.7	—
Tax impact	(1.3)	(0.2)
Other comprehensive income	2.4	0.4
Comprehensive loss	\$ (69.5)	\$ (42.7)
Accumulated other comprehensive income		
Balance, beginning of year	\$ 0.2	\$ (0.2)
Other comprehensive income for the year	2.4	0.4
Balance, end of year	\$ 2.6	\$ 0.2

(See accompanying notes)

Consolidated Statements of Cash Flows

Years ended December 31 (US\$ millions)	2008	2007 (restated – note 2)
Cash provided by (used for):		
Operating Activities		
Loss	\$ (71.9)	\$ (43.1)
Items not affecting cash:		
Depreciation	34.8	31.1
Future income taxes (note 9)	(0.5)	(14.8)
Gain on sale of equity investee (note 16)	—	(38.4)
Restructuring charges (note 17)	—	15.9
Employment benefit plan expense (note 8)	15.2	13.5
Other	(7.1)	1.6
Employment benefit plan funding (note 8)	(26.0)	(31.2)
	(55.5)	(65.4)
Net change in non-cash working capital balances (note 11)	9.6	17.2
	(45.9)	(48.2)
Investing Activities		
Capital investments	(27.1)	(20.3)
Proceeds on sale of equity investee (note 16)	—	38.4
	(27.1)	18.1
Financing Activities		
Proceeds from rights offering (note 6)	59.7	—
Repayment of long-term debt (note 6)	(50.0)	(68.5)
Borrowings under term loan facility (note 6)	18.6	—
Borrowings under term credit facility (note 6)	25.0	—
Net borrowings under revolving credit facility (note 6)	16.6	81.6
	69.9	13.1
Decrease in cash and cash equivalents	\$ (3.1)	\$ (17.0)
(See accompanying notes)		

Notes to the Consolidated Financial Statements

(US\$millions, unless otherwise noted)

In these notes "Fraser Papers" means Fraser Papers Inc. and all of its consolidated subsidiaries and affiliates and "Company" means Fraser Papers Inc. as a separate corporation. "Norbord" means Norbord Inc. (a related party by virtue of a common controlling shareholder) or any of its consolidated subsidiaries. "Acadian" means Acadian Timber Income Fund (a related party by virtue of a common significant shareholder). "Brookfield" means Brookfield Asset Management Inc. (a related party by virtue of a controlling equity interest in the Company) or any of its consolidated subsidiaries.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the significant accounting policies listed below.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses during the period. Significant estimates include the determination of the carrying value and useful lives of property, plant and equipment, provisions for employee future benefits and future income tax assets and liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the bank and short-term deposits with a term to maturity of less than ninety days at the date of purchase. Cash and cash equivalents are recorded at fair value.

Valuation of Inventories

Inventories of raw materials and operating supplies are valued at the lower of average cost and replacement cost or net realizable value. Inventories of manufactured products are valued at the lower of average cost, which include all direct production costs and an allocation of overhead costs incurred at production facilities, or net realizable value.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated on a straight-line basis. The rates of depreciation are intended to fully depreciate manufacturing and non-manufacturing assets over the following periods which approximate their useful lives:

Buildings	20 to 40 years
Lumbermills and lumber production equipment	10 to 15 years
Paper and pulp mill machinery and production equipment	20 years
Logging machinery and equipment	4 to 10 years

Interest costs directly related to major capital projects are capitalized during construction. Costs, net of revenues, incurred during the start-up period of major capital projects are deferred as other assets and amortized over the first three years of the life of the project. As at December 31, 2008 and 2007 there were no deferred start-up costs recorded in property, plant and equipment.

Impairment of Long-Lived Assets

The carrying value of long-lived assets, such as property, plant and equipment, are reviewed when events or circumstances change indicating that their carrying value may not be recoverable. Where such changes in events or circumstances indicate the carrying amounts may not be recoverable, the carrying value of those assets is compared to the estimated undiscounted future cash flows generated by their use. Where the carrying value of such assets does not exceed the estimated undiscounted future cash flows, these assets are recorded at fair value. The cash flow projections take into account the relevant operating plans and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.

The Company's estimate of future cash flows is subject to risks and uncertainties. It is possible that changes may occur which could affect the carrying value of Fraser Papers' long-lived assets.

Employee Future Benefits

Fraser Papers sponsors various defined benefit and defined contribution pension plans, which cover substantially all employees and are funded in accordance with applicable plan and regulatory requirements. The benefits under Fraser Papers' defined benefit pension plans are generally based on an employee's length of service and their highest five years' average salary. The plans do not provide for indexation of benefit payments. Hourly employees are generally members of negotiated plans. Fraser Papers also provides non-pension post-retirement benefits to certain eligible retirees, consisting of medical and dental benefits, which are funded on a "pay-as-you-go" basis.

The measurement date for all defined benefit plans is December 31. The obligations associated with Fraser Papers' defined benefit pension plans are actuarially valued using the projected unit credit method pro rated on pensionable services, management's best estimate assumptions for expected investment performance, salary escalation, health care cost trend rates, expected mortality rates and a current market discount rate. For the purpose of calculating the expected return on plan assets, those assets are measured at fair value. Prior service costs related to plan amendments and transitional assets are amortized on a straight-line basis over the estimated average remaining service lives ("EARSL") of the employee groups. The net actuarial gains or losses in excess of 10% of the greater of the accrued benefit obligation and the fair value of plan assets are amortized on a straight-line basis over EARSL.

Asset Retirement Obligations

Fraser Papers' asset retirement obligations relate primarily to closure costs for landfill sites at Fraser Papers' operating locations. The liability associated with these sites is reduced as these obligations are paid and the asset associated with these obligations is depreciated over the estimated useful life of the related facility. Revisions to the liability could occur due to changes in the estimated costs or timing of closures or new regulations affecting these closures.

Revenue Recognition

Net sales are recognized when the title and risks of ownership pass to the purchaser and are governed by standard industry terms and, in some cases, by contract. Generally, title passes when goods are shipped for paper and lumber and when received by the customer for pulp. Revenue is not recognized prior to completion of all relevant terms. Net sales are net of freight costs, commissions, discounts and rebates to customers.

Translation of Foreign Currencies

The United States dollar is the reporting currency of Fraser Papers and the functional currency of its operations.

Monetary assets and liabilities denominated in currencies other than the United States dollar are translated at the rate of exchange prevailing at year end. Gains or losses on translation of these items are included in the consolidated statements of operations. Realized gains or losses on transactions that hedge these items are also included in the consolidated statements of operations.

Stock-based Compensation

The Company issues stock options pursuant to a stock option plan, which is described in *note 10*. The Company accounts for stock options using the fair value method. Under this method, compensation expense for stock options is measured at fair value at the grant date using the Black-Scholes valuation model and is recognized over the vesting period of the options granted.

The Company has two deferred share unit plans which provide certain directors and senior officers of the Company with an opportunity to invest a portion of their compensation in deferred stock units. Deferred stock units are subject to vesting periods at the discretion of the Board of Directors. Payments under the plans are made in cash only. The expense associated with these stock units is recognized over the vesting period. The liability associated with these plans is measured based on the fair value of the vested units which is based on the current market price of the shares of the Company.

Financial Instruments

The Company has classified accounts receivable as loans and receivables and are measured at amortized cost. The Company's interest in Katahdin Paper Company LLC ("Katahdin") is classified as an available-for-sale investment, but does not have a quoted market price and is measured at cost. Bank indebtedness, accounts payable and accrued liabilities and long-term debt are also measured at amortized cost and are classified as other financial liabilities. The Company does not have any financial assets or liabilities classified as held for trading or held-to-maturity investments. The fair values of financial instruments approximate their carrying values, except where disclosed elsewhere in these notes. Fair values disclosed are determined using quoted market prices or as provided by counterparties.

Transaction costs directly attributable to the acquisition or issuance of financial liabilities are added to or netted against the carrying amount of the financial liabilities and amortized over their expected life.

Fraser Papers does not use derivative financial instruments for speculative purposes. In accordance with the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook *Section 3865, Hedges*, the Company documents its risk strategy objectives and the relationship between the hedging instrument and hedged item. The Company also assesses the effectiveness of the hedging relationships throughout their term to ensure they remain consistent with the Company's risk strategy.

Fair value hedges are used to manage the Company's exposure to changes in value of assets and liabilities held in a foreign currency. The carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is re-measured at fair value and the gains and losses from both are recorded in the consolidated statements of operations.

Cash flow hedges are used to reduce variability in cash flow that is attributable to changes in foreign exchange rates or commodity prices associated with forecasted transactions. The effective portion of the unrealized gain or loss on the hedging instrument is recognized in other comprehensive income. Any ineffective portion is recorded in the consolidated statements of operations. Amounts accumulated in other comprehensive income are reclassified into the consolidated statements of operations as the gain or loss on the hedged item is realized.

Emerging Accounting Pronouncements

In February 2008, the CICA's Accounting Standards Board announced that Canadian public companies will be required to adopt International Financial Reporting Standards, as issued by the International Accounting Standards Board, effective January 1, 2011. Early adoption is permissible. The Company is currently assessing the impact of adoption on its consolidated financial statements.

NOTE 2. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted new recommendations under CICA Handbook *Section 1535, Capital Disclosures*, *Section 3031, Inventories*, *Section 3862, Financial Instruments – Disclosure* and *Section 3863, Financial Instruments – Presentation*.

Inventories

On January 1, 2008, Fraser Papers adopted new accounting recommendations of the CICA related to inventories. Under the new recommendations, spare parts inventory which has a useful life of more than one year must be classified as a long-lived asset and amortized over its estimated useful life. Previously, Fraser Papers classified certain of these spare parts as inventory and charged them to operations when put in use. The change in policy has been applied retroactively. As a result the Company has reversed certain amounts charged to operations prior to January 1, 2007 and reclassified certain inventory items to property, plant and equipment on the consolidated balance sheets. These adjustments as at January 1, 2007 resulted in an increase to property, plant and equipment of \$3.2, a decrease in inventories of \$0.7, an increase in future income taxes liabilities of \$0.4 and a decrease in opening deficit as at January 1, 2007 of \$2.1. In addition, the Company has restated its 2007 results of operations in order to reflect this change in policy. These adjustments resulted in a decrease in the consolidated loss for the year ended December 31, 2008 of \$2.7 or \$0.06 per share (2007 – \$0.6 or \$0.01 per share), compared to if the Company had not changed its policy. Additional disclosures required by the new recommendations are provided in *note 3*.

Financial Instruments

On January 1, 2008, Fraser Papers adopted new accounting recommendations of the CICA related to disclosing information about financial instruments and risk management. These disclosures have been described in *note 12*.

Capital Disclosures

On January 1, 2008, Fraser Papers adopted new accounting recommendations of the CICA related to disclosing information about how an entity manages its capital. These disclosures have been described in *note 13*.

NOTE 3. INVENTORY

	2008	2007
Raw materials	\$ 25.4	\$ 35.4
Finished goods	68.6	58.2
Operating and maintenance supplies	31.5	30.6
	\$ 125.5	\$ 124.2

For the year ended December 31, 2008, Fraser Papers recorded a provision of \$8.1 (2007 – \$5.8) to reduce the carrying value of certain of its inventories to the lower of original cost or net realizable value. \$37.3 (2007 – \$40.6) of inventory is recorded at net realizable value at December 31, 2008. No reversals of prior charges were recorded in 2008 or 2007.

Inventory costs recognized as an expense during the year are reported as cost of goods sold in the consolidated statements of operations.

On January 29, 2009 Fraser Papers announced the sale of approximately 10,500 tons of finished goods paper inventory to Brookfield for proceeds of approximately \$11.7. Proceeds on the sale were used to repay amounts owing on the Company's revolving credit facility. In addition, the Company has agreed to supply paper to Brookfield through July 31, 2009, at market prices less a merchant's discount of 3.5%. Fraser Papers will provide sales and administrative support to Brookfield.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

2008	Cost	Accumulated Depreciation	Net Book Value
Pulp and paper mills	\$ 895.0	\$ (659.7)	\$ 235.3
Lumbermills	115.6	(94.9)	20.7
	\$ 1,010.6	\$ (754.6)	\$ 256.0

2007	Cost	Accumulated Depreciation	Net Book Value
Pulp and paper mills	\$ 868.3	\$ (626.8)	\$ 241.5
Lumbermills	117.7	(93.0)	24.7
	\$ 986.0	\$ (719.8)	\$ 266.2

NOTE 5. OTHER ASSETS

	2008	2007
Pension plans (note 8)	\$ 44.6	\$ 43.2
Investment in Katahdin Paper Company LLC (note 15)	12.6	12.1
Deferred costs and other	3.7	1.2
	\$ 60.9	\$ 56.5

NOTE 6. LONG-TERM DEBT

	2008	2007
Revolving credit facility	\$ 48.2	\$ 81.6
Term loan facility	16.3	—
Term credit facility	25.0	—
Deferred financing costs	(0.5)	—
	89.0	81.6
Current portion of long-term debt	(25.0)	(81.6)
	\$ 64.0	\$ —

In January 2008, the Company completed a rights offering to its shareholders (the "Offering") under which it received net proceeds of \$59.7. The proceeds were used to repay outstanding indebtedness including \$50.0 in temporary financing, which was due January 31, 2008. Additional disclosure about the Offering is provided in note 10.

In April 2008, the Company amended its existing revolving credit facility to extend the term of the facility and increase the maximum borrowings under the facility to \$115.0. The amended facility bears interest at market rates and is due in April 2011. Borrowings under the facility are secured by a first charge against accounts receivable and inventory of Fraser Papers. At December 31, 2008, \$86.7 (2007 – \$123.9) of the facility was utilized, \$48.2 (2007 – \$31.6) for operating bank loans and the balance in the form of letters of credit.

In June 2008, the Company entered into a term loan facility with the province of New Brunswick for up to CAD\$40.0. The facility bears interest at a fixed rate of 4.7% and is due December, 2014. Borrowings under the facility will be used to fund capital expenditures at the Company's operations in New Brunswick and are secured by a first charge on property, plant and equipment located in New Brunswick. Principal payments under the loan will be made in quarterly installments over the term of the loan with a lump sum payment on maturity. The first principal repayment is due no later than March, 2010. At December 31, 2008, \$16.3 (CAD\$20.0) had been drawn under this facility.

In September 2008, the Company entered into a term credit facility for \$25.0. Brookfield has provided a guarantee to the lenders in support of this credit facility and is required to meet certain financial covenants. The facility bears interest at market rates and is due in September 2009. At December 31, 2008, the facility was fully drawn.

During 2007, the Company closed a tender offer to repay \$84.0 in principal amount of its outstanding 8.75% Senior Notes ("Notes"). The Company repaid \$68.5 of Notes to the public and cancelled \$15.5 of Notes held by Fraser Papers. The repayment was financed, in part, through a temporary \$50.0 increase in the Company's revolving credit facility with its current lender. A write-down of deferred financing costs of \$1.6, related to the repayments under the tender offer, has been reflected in the consolidated statements of operations and statements of cash flows.

The effective interest rate on long-term debt was 3.4% at December 31, 2008 (2007 – 7.5%).

During the year, the Company made interest payments of \$3.0 (2007 – \$8.9).

NOTE 7. OTHER LIABILITIES

	2008	2007
Post-retirement benefit plans (note 8)	\$ 37.5	\$ 44.2
Asset retirement obligations	10.6	10.8
Other	0.3	1.1
	\$ 48.4	\$ 56.1

Asset retirement obligations relate primarily to closure costs and post-closure maintenance costs for landfills at Fraser Papers' current and former operating locations. Obligations as at December 31, 2008 were reduced by \$1.0 (2007 – increased by \$2.3) due to revisions in estimated cash flows from the prior year. Total accretion expense for the year related to asset retirement obligations was \$0.8 (2007 – \$0.7). The obligations represent estimated future payments of \$28.2 (2007 – \$33.6) which have been discounted at a weighted average rate of 8.0%. In addition to the asset retirement obligations recorded, Fraser Papers may have other obligations in the event of a permanent shutdown of any of its operations. However, these plant assets have indeterminate lives and, therefore, the associated asset retirement obligations are not reasonably estimable and liabilities cannot be established.

NOTE 8. EMPLOYEE BENEFIT PLANS**Pension Plans**

Fraser Papers has a number of pension plans, participation in which is available to all employees. Fraser Papers' obligations under its defined benefit pension plans are determined periodically through the preparation of actuarial valuations, which are required every one to three years, depending on where the plan is registered. Information about these plans is as follows:

	2008	2007
Change in Accrued Benefit Obligation During the Year:		
Accrued benefit obligation, beginning of year	\$ 643.0	\$ 588.0
Employee contributions	2.3	2.2
Current service cost	6.7	8.2
Interest on accrued benefit obligation	32.3	31.9
Benefits paid	(44.2)	(46.5)
Net actuarial gain	(42.2)	(19.5)
Restructuring (note 17)	—	2.8
Foreign currency exchange rate impact	(89.1)	75.9
Accrued benefit obligation, end of year ⁽¹⁾	\$ 508.8	\$ 643.0
Change in Plan Assets During the Year:		
Plan assets, beginning of year	\$ 530.5	\$ 475.4
Actual return on plan assets	(104.7)	14.9
Employer contributions	19.1	25.0
Employee contributions	2.3	2.2
Benefits paid	(44.2)	(46.5)
Foreign currency exchange rate impact	(65.7)	59.5
Plan assets, end of year ⁽¹⁾	\$ 337.3	\$ 530.5
Reconciliation of Funded Status:		
Accrued benefit obligation	\$ 508.8	\$ 643.0
Plan assets	337.3	530.5
Accrued benefit obligation in excess of plan assets	(171.5)	(112.5)
Unamortized net actuarial loss	215.9	155.4
Unamortized prior service costs	4.7	7.3
Unamortized net transitional asset	(4.5)	(7.0)
Net accrued benefit asset	\$ 44.6	\$ 43.2

(1) All plans have accrued benefit obligations in excess of plan assets before unamortized amounts.

	2008	2007
Components of Net Pension Expense:		
Current service cost	\$ 6.7	\$ 8.2
Interest on accrued benefit obligation	32.3	31.9
Actual return on plan assets	104.7	(14.9)
Net actuarial gain	(42.2)	(19.5)
Restructuring ⁽²⁾ (note 17)	1.3	2.8
Difference between actual and expected return on plan assets	(144.1)	(24.9)
Difference between actual and recognized net actuarial loss	50.7	27.6
Difference between actual and recognized prior service costs	1.4	1.5
Amortization of net transitional asset	(1.3)	(1.1)
Net periodic pension expense	\$ 9.5	\$ 11.6

(2) In the first quarter of 2008, the Company received regulatory approval relating to a partial wind-up of pension plan obligations as a result of a disposition of timberland assets in New Brunswick in 2006 and recorded a settlement expense of \$1.3 in selling, general and administrative costs.

The net actuarial gain of \$42.2 is primarily the result of a change in the rate used to discount the accrued benefit obligations.

	2008	2007
Significant Weighted-Average Actuarial Assumptions:		
Used in calculation of net periodic pension expense for the year:		
Discount rate	5.42%	5.17%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase	3.82%	3.81%
Used in calculation of accrued benefit obligation, end of year:		
Discount rate	6.18%	5.42%
Rate of compensation increase	3.82%	3.81%

The weighted average asset allocation of Fraser Papers' defined benefit pension plan assets is as follows:

Asset category:		
Equity investments	64%	69%
Fixed income investments	36%	31%
Total assets	100%	100%

The consolidated statements of operations include \$3.5 (2007 – \$2.7) related to contributions to Fraser Papers' defined contribution pension plans.

Post-Retirement Benefit Plans

Fraser Papers funds health care benefits costs on a pay-as-you-go-basis. Fraser Papers' obligations under its post-retirement benefit plans are determined periodically through actuarial valuations, which are conducted no less frequently than every three years. Information about these plans is as follows:

	2008	2007
Change in Accrued Benefit Obligation During the Year:		
Accrued benefit obligation, beginning of year	\$ 60.7	\$ 62.1
Current service cost	0.6	0.6
Interest on accrued benefit obligation	3.2	3.4
Benefits paid	(3.4)	(3.5)
Net actuarial gain	(9.5)	(9.1)
Plan amendment	0.8	1.3
Restructuring (note 17)	—	0.5
Foreign currency exchange rate impact	(5.6)	5.4
Accrued benefit obligation, end of year	\$ 46.8	\$ 60.7
Reconciliation of Funded Status:		
Accrued benefit obligation	\$ 46.8	\$ 60.7
Plan assets	—	—
Accrued benefit obligation in excess of plan assets	(46.8)	(60.7)
Unamortized net actuarial loss	7.4	18.1
Unamortized prior service cost	1.9	(1.6)
Net accrued benefit liability	\$ (37.5)	\$ (44.2)

	2008	2007
Components of Net Post-retirement Benefit Expense:		
Current service cost	\$ 0.6	\$ 0.6
Interest on accrued benefit obligation	3.2	3.4
Plan amendment	0.8	1.3
Net actuarial gain	(9.5)	(9.1)
Difference between actual and recognized net actuarial loss	10.6	10.6
Difference between actual and recognized prior service losses	(3.5)	(4.8)
Restructuring (note 17)	—	0.5
Net periodic post-retirement benefit expense	\$ 2.2	\$ 2.5
Significant Weighted-Average Actuarial Assumptions:		
Used in calculation of net post-retirement benefit expense for the year:		
Discount rate	5.58%	5.33%
Used in calculation of accrued benefit obligation, end of year:		
Discount rate	6.22%	5.58%
Health care cost trend rate used in calculation of accrued benefit obligation, end of year:		
Initial rate	9.72%	9.78%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2017	2016
Sensitivity to change in health care cost trend rate, for year ended December 31, 2008:		
	1% increase	1% increase
Impact on net periodic post-retirement benefit expense	0.5	0.5
Impact on accrued benefit obligation	4.5	7.0

NOTE 9. INCOME TAXES

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the amounts used for income tax purposes.

Significant components of the provision for recovery of income taxes are as follows:

	2008	2007
Current tax expense	\$ (0.4)	\$ (1.4)
Future income tax recovery	0.5	14.8
Income tax recovery	\$ 0.1	\$ 13.4

The differences between income taxes computed using statutory tax rates and income tax as recorded are as follows:

	2008	2007
Loss before income taxes	\$ (72.0)	\$ (56.5)
Tax recovery at combined statutory rates	23.0	19.1
Effect of:		
Rate differences on different jurisdictions	5.0	0.3
Non-taxable portion of net capital gains	1.8	22.5
Foreign exchange and other	(11.0)	1.7
Change in valuation allowance	(18.7)	(30.2)
Income tax recovery	\$ 0.1	\$ 13.4

The income tax effects of temporary differences that give rise to future income taxes are as follows:

	2008	2007
Benefit of tax loss carry forwards	\$ 151.1	\$ 126.4
Post-employment benefits	(1.0)	0.2
Current future income tax assets	5.9	9.0
Other future income tax assets, net	2.9	8.1
Property, plant and equipment	(40.6)	[45.6]
Future income taxes	\$ 118.3	\$ 98.1
Less: Valuation allowance	(121.5)	(102.8)
Future income taxes, net	\$ (3.2)	\$ (4.7)
Represented by:		
Current future income tax asset	\$ 0.3	\$ 0.2
Long-term future income tax liability	(3.5)	(4.9)
	\$ (3.2)	\$ (4.7)

The benefit of tax loss carry-forwards includes the benefit of \$326.4 (2007 – \$272.3) of net losses in the United States which expire between 2024 and 2028. A valuation allowance of \$121.5 (2007 – \$102.8) has been provided against the benefit of income tax assets as it is not more likely than not that they will be realized. Included in the valuation allowance is \$142.4 (2007 – \$123.8) of future income tax assets related to these losses, partly offset by \$20.8 (2007 – \$21.0) of net future income tax liabilities. The Company has \$71.7 (2007 – \$63.3) of loss carry-forwards in Canada which expire between 2014 and 2027.

Income or income-related taxes of \$0.6 (2007 – \$2.3) were paid during the year. There is no income tax recoverable (2007 – \$1.2) in accounts receivable, as at December 31, 2008.

NOTE 10. SHAREHOLDERS' EQUITY

	2008	2007
Common shares – 50,166,789 (2007 – 29,509,876) shares outstanding	\$ 549.7	\$ 490.0
Contributed surplus	6.9	5.7
Accumulative other comprehensive income	2.6	0.2
Deficit	(274.9)	(203.0)
	\$ 284.3	\$ 292.9

The authorized capital stock of the Company consists of an unlimited number of Class A preferred shares, Class B preferred shares, non-voting participating shares and common shares.

The weighted average number of shares outstanding used for calculating loss per share was 48,445,380 (2007 – 29,509,876).

In the fourth quarter of 2007, the Company filed a final short form prospectus with securities regulators in Canada relating to the Offering. Under the Offering, the Company distributed rights to existing shareholders to purchase 20,656,913 shares, at a purchase price of CAD\$2.90. On January 24, 2008 the Company issued 20,656,913 shares and received net proceeds of \$59.7.

Under Fraser Papers' Stock Option Plan, the Board of Directors may issue stock options to certain officers of the Company. These options have a ten year life and vest evenly over five years and are valued at the grant date using the Black-Scholes valuation model using the following assumptions:

	2008	2007
Risk-free interest rate	3.9%	3.9%
Volatility	38.0%	32.0%
Dividend yield	0.0%	0.0%
Expected life	7.5 years	7.5 years

Total compensation expense in 2008 was \$1.2 (2007 – \$0.9) for these stock options.

The following table summarizes the changes in options outstanding and the impact on the weighted average per share exercise price during the year:

	2008		2007	
	Number of Options	Weighted Average Exercise Price (CAD\$)	Number of Options	Weighted Average Exercise Price (CAD\$)
Balance, beginning of year	1,630,000	\$ 7.89	730,000	\$ 10.79
Options granted	1,445,000	3.01	1,015,000	5.99
Options cancelled	(360,000)	5.14	(115,000)	9.50
Balance, end of year	2,715,000	\$ 5.66	1,630,000	\$ 7.89

The following table summarizes options outstanding and the weighted average exercise price, as at December 31, 2008:

Year granted	Options Outstanding		Weighted Average Exercise Price ⁽¹⁾ (CAD\$)	Options Vested and Exercisable Number of Options
	Number of Options	Weighted Average Remaining Contractual Life		
2004	195,000	5.7	\$ 16.45	156,000
2005	10,000	6.1	14.59	6,000
2006	355,000	7.1	8.04	142,000
2007	900,000	8.1	5.99	180,000
2008	1,255,000	9.1	3.01	—
	2,715,000	8.3	\$ 5.66	484,000

(1) Options granted in 2004 – 2007 were issued at the weighted average exercise price for those years. Options granted in 2008 are exercisable at prices of \$2.22 to \$3.10.

NOTE 11. CHANGE IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital balances is comprised of the following:

	2008	2007
Cash provided by (used for):		
Accounts receivable	\$ 27.8	\$ 10.6
Inventory	(1.2)	(7.5)
Accounts payable and accrued liabilities	(17.0)	14.1
	\$ 9.6	\$ 17.2

NOTE 12. FINANCIAL INSTRUMENTS

Foreign Currency Rate Risk

Fraser Papers holds assets and liabilities in Canadian dollars and incurs a significant portion of its costs in Canadian dollars. From time to time Fraser Papers enters into forward foreign exchange contracts to hedge the impact of foreign exchange rate changes on these assets, liabilities and costs. Fraser Papers does not use derivative financial instruments for speculative purposes.

As at December 31, 2008, the Company has outstanding forward foreign exchange contracts of \$41.0 (2007 – \$30.2), which are designated as a fair value hedge against certain Canadian dollar-denominated net monetary liabilities. The consolidated statements of operations for the year ended December 31, 2008 include a realized loss of \$7.6 (2007 – gain of \$8.0) on matured forward foreign exchange contracts and an unrealized loss of \$0.1 (2007 – gain of \$0.2) on outstanding contracts. These realized and unrealized gains or losses are offset by realized and unrealized losses or gains on the net monetary liabilities being hedged.

As at December 31, 2008, the Company has forward foreign exchange contracts of \$91.5 (2007 – \$42.4) as a hedge of anticipated future Canadian dollar cash outflows and no contracts (2007 – \$60.0) as a hedge of anticipated future Canadian dollar cash inflows. These contracts have varying maturity dates in 2009. The consolidated statements of operations for the year ended December 31, 2008 include a realized loss of \$4.0 (2007 – gain of \$2.5) on matured forward foreign exchange contracts. An unrealized gain of \$3.4 (2007 – \$0.4) is recorded in other comprehensive income. These contracts effectively fix the exchange rate at which certain anticipated future Canadian dollar-denominated cash flows will be incurred.

Credit Risk

Fraser Papers does not have a trade receivable balance greater than \$5.8 from any individual customer as at December 31, 2008 (2007 – \$7.9). The Company reviews a customer's credit rating before extending or increasing credit and conducts regular reviews of existing customers' credit performance. The consolidated statements of operations for the year ended December 31, 2008 includes bad debt expense of \$0.2 (2007 – \$nil). The allowance for doubtful accounts as at December 31, 2008 was \$0.4 (2007 – \$0.2).

Earnings Sensitivity

Fluctuations in market prices expose the Company to potential negative effects from market risk, which is composed of changes in currency exchange rates (currency risk), changes in interest rates (interest rate risk) and changes in the selling prices of the Company's products (price risk).

Currency Risk

With production facilities in Canada, a significant portion of the Company's operating costs are sourced in Canadian dollars. For the year ended December 31, 2008, a US\$0.01 change in the foreign exchange rate would have impacted pre-tax loss, before the impact of the Company's hedging program, by \$3.6.

Interest Rate Risk

Interest rates on the Company's borrowings are subject to change and could affect the profitability of the Company. The Company currently manages its interest rate risk by maintaining three borrowing facilities to support its liquidity requirements. One of these facilities attracts interest at a fixed rate of 4.7% while the others attract interest at floating rates. Interest rate swaps are an available alternative to further reduce the Company's exposure to fluctuations in interest rates. For the year ended December 31, 2008, a 100 basis point change in market interest rates would have impacted pre-tax loss by \$0.5.

Price Risk

Markets for some of Fraser Papers' products are highly cyclical in nature. From time to time, Fraser Papers enters into commodity futures contracts which serve to hedge a portion of Fraser Papers' future sales against changes in the selling price for these products. Fraser Papers does not use derivative financial instruments for speculative purposes.

The Company is exposed to variability in commodity prices on the sale of its paper, pulp and lumber products. A \$25 per ton change in the value received on the sale of paper products would have impacted pre-tax loss for the year ended December 31, 2008, by \$14.1. A \$25 per tonne change in pulp prices would have affected pre-tax loss for the year ended December 31, 2008, by \$1.3. For the year ended December 31, 2008, pre-tax loss would have been impacted by \$4.8 with a change in lumber prices of \$25 per Mbfm. The Company considers the use of pulp and lumber hedges to limit its exposure to variability in pricing.

During the year, Fraser Papers entered into lumber futures contracts representing 30.8 million board feet of lumber (2007 – 13.2), which effectively fixed the selling price for lumber delivered on the expiry date and were designated as a hedge of a portion of future lumber sales. These contracts matured in the fourth quarter of 2008 and first quarter of 2009 and are highly effective at mitigating the impact of changing lumber prices. The consolidated statements of operations for the year ended December 31, 2008 include a realized gain of \$0.7 (2007 – \$0.6) on matured lumber futures contracts and an unrealized gain of \$0.7 (2007 – nil) is recognized in other comprehensive income during year. There is no hedge ineffectiveness on these contracts. Contracts representing 1.7 million board feet of lumber (2007 – nil) were outstanding at December 31, 2008.

NOTE 13. CAPITAL MANAGEMENT

The Company monitors capital on the basis of the net debt to net debt plus equity ratio. Net debt is bank indebtedness plus long-term debt, less cash and cash equivalents. Equity comprises all components of shareholders' equity.

The Company seeks to maintain a conservative net debt to net debt plus equity ratio while maintaining adequate liquidity to achieve its business plans. Fraser Papers manages the term of its debt with consideration to the expected life of its net assets. As such, shareholders' equity is maintained at amounts in excess of the carrying value of property, plant and equipment. The Company's current net debt to net debt plus equity ratio is 25%. In order to maintain or modify the capital structure the Company has a number of alternatives, subject to certain approvals, including: issue additional shares; repurchase of its own shares on the market; return capital to shareholders; and the issuance of, or repayment of debt.

NOTE 14. COMMITMENTS AND CONTINGENCIES**Guarantees**

Brookfield has provided guarantees to the lenders of the Company in support of its credit facilities. The maximum amount of the guarantees is \$50.0. Fraser Papers has provided Brookfield with a guarantee that it will repay Brookfield any amounts paid by Brookfield to Fraser Papers' lenders. The guarantees are secured by a fixed charge on certain of Fraser Papers' assets.

Norbord has provided guarantees for certain obligations of Fraser Papers under a financial commitments agreement (the "FCA"). These guarantees were previously obligations of the paper division of Norbord. At December 31, 2008, the maximum potential amount of the obligations guaranteed was estimated to be \$1.0 (2007 - \$4.4).

Under the FCA, Fraser Papers agreed to provide letters of credit or other acceptable collateral to secure any guarantees outstanding on December 31, 2008. As security for these ongoing financial commitments to Fraser Papers, Norbord has the right, at any time, to require Fraser Papers to provide a fixed first charge security interest over certain of Fraser Papers' manufacturing facilities.

Other

Fraser Papers has entered into various commitments for the future supply of operating services and materials. Commitments under employee benefit plans, operating leases and other obligations for which the cash flows are fixed or determinable at December 31, 2008, are:

	Employee Benefit Plans	Operating Leases and Other	Total
2009	\$ 30.8	\$ 23.2	\$ 54.0
2010	35.4	0.3	35.7
2011	41.7	0.2	41.9
2012	30.9	0.1	31.0
2013	18.0	—	18.0
Subsequent	61.5	—	61.5
	\$ 218.3	\$ 23.8	\$ 242.1

NOTE 15. RELATED PARTY TRANSACTIONS

Fraser Papers purchased \$4.8 (2007 - \$5.7) of electricity for its Gorham paper mill, from Brookfield and its affiliates. Included in accounts payable and accrued liabilities is \$1.0 (2007 - \$0.5) related to these purchases.

Fraser Papers has invested in convertible, preferred units (the "Units") of Katahdin, an indirectly, wholly owned subsidiary of Brookfield. The Units earn a preferential cumulative distribution of 5% per annum. Cumulative distributions accrued on this investment amount to \$2.6 (2007 - \$2.1).

Fraser Papers has leased certain productive equipment owned by Katahdin. The lease payment amounts are determined with reference to the profits generated by those assets such that all of the profits earned by Fraser Papers on those assets, net of a management fee, are remitted to the lessor as lease payments. During the year, Fraser Papers earned a management fee of \$7.5 (2007 - \$8.0) from Katahdin. Included in accounts receivable is \$0.6 (2007 - \$2.5) related to these fees.

During 2008, Fraser Papers sold \$1.7 (2007 - \$3.3) of goods and services to Katahdin. Included in accounts receivable is \$0.1 (2007 - \$0.8) related to these sales.

Fraser Papers has entered into 20 year fibre supply agreements with Acadian. During the year, purchases of fibre from Acadian amounted to \$26.1 (2007 - \$33.6). Included in accounts payable and accrued liabilities is \$1.0 (2007 - \$1.0) related to these purchases. The Company paid \$1.5 (2007 - \$0.8) to Acadian as a fee for administering the Company's Crown Licenses. The Company's prior equity interest in Acadian generated distributions of \$2.3 in 2007.

Subsequent to December 31, 2008, Fraser Papers announced the sale of approximately 10,500 tons of finished goods paper inventory to Brookfield for proceeds of approximately \$11.7. In addition, the Company has agreed to supply paper to Brookfield through July 31, 2009, at market prices less a merchant's discount of 3.5%. Fraser Papers will provide sales and administrative support to Brookfield.

In connection with the Offering, Fraser Papers entered into a Standby Purchase Agreement with Brookfield, in which Brookfield agreed to exercise all of its rights and would purchase any common shares not otherwise subscribed for by other shareholders of the Company. As a result, Brookfield paid CAD\$54.6 to acquire 18,813,241 shares, increasing their ownership interest to 70.5% of the Company.

Brookfield has provided the Company with a facility with a notional amount of \$350.0 to enter into forward foreign exchange contracts as part of the Company's hedging activities. At December 31, 2008, the Company has entered into forward foreign exchange contracts of \$41.0 (2007 – \$30.2) as a hedge against certain Canadian dollar-denominated net monetary liabilities, nil (2007 – \$60.0) as a hedge of anticipated future Canadian dollar cash inflows and \$100.3 (2007 – \$35.2) as a hedge of anticipated future Canadian dollar cash outflows, under this facility.

The Company has agreed to pay guarantee fees to Brookfield in connection with guarantees to Fraser Papers' lenders in support of Fraser Papers' credit facilities. The fees are equal to an annualized rate of approximately 2.0% of the maximum amount of the guarantees of \$50.0 (or \$1.0 per year).

Fraser Papers is dependant on the continued financial support of Brookfield. Without this support, it is possible that the Company may not be able to secure alternative sources of financing with terms that are satisfactory to the Company (see also note 14).

All related party transactions are recorded at the exchange amount.

NOTE 16. SALE OF EQUITY INVESTEE

On September 26, 2007, Fraser Papers sold its interest in Acadian for net proceeds of \$38.4, which were received in the fourth quarter of 2007. As the units in Acadian had a book value of nil, a gain of \$38.4 was recorded on the transaction.

NOTE 17. CLOSURE OF PAPER MANUFACTURING CAPACITY

During the second quarter of 2007, Fraser Papers permanently shut down two uncoated freesheet paper machines at its East Papers operations. As a result, Fraser Papers recorded a restructuring charge of \$15.9 including an impairment charge related to property, plant and equipment and spare parts inventory of \$9.2 and other costs of \$6.7.

NOTE 18. SEGMENTED INFORMATION

Geographic Segments

Net sales by geographic segment are determined based on origin of shipment and therefore include export sales.

	Net Sales		Property, Plant and Equipment	
	2008	2007	2008	2007
United States	\$ 590.1	\$ 588.7	\$ 121.4	\$ 131.2
Canada	98.5	126.0	134.6	135.0
Combined total	\$ 688.6	\$ 714.7	\$ 256.0	\$ 266.2

Operating Segments

As an integrated producer of paper and pulp as its principal business, Fraser Papers has one reportable segment. Its lumbermill operations are an integral part of its overall business as these facilities provide fibre for the internal production of pulp.

NOTE 19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified from those previously presented to conform to the current year's presentation.

Directors and Officers of Fraser Papers

DIRECTORS

Rorke B. Bryan, Ph.D. ⁽³⁾ ⁽⁴⁾
Corporate Director

Jack L. Cockwell, CA ⁽⁴⁾
Group Chairman
Brookfield Asset Management Inc.

Paul E. Gagné, CA ⁽¹⁾ ⁽⁴⁾
Chairman
Wajax Income Fund

Dominic Gammiero
Chairman
Fraser Papers Inc.

J. Peter Gordon
Chief Executive Officer
Fraser Papers Inc.

Robert J. Harding, FCA ⁽²⁾
Chairman
Brookfield Asset Management Inc.

Aldéa Landry, C.M., Q.C. ⁽¹⁾ ⁽²⁾ ⁽³⁾
President
Landal Inc.

Margot Northey, Ph.D. ⁽¹⁾ ⁽²⁾ ⁽³⁾ ⁽⁴⁾
Corporate Director

Samuel J.B. Pollock, CA ⁽³⁾ ⁽⁴⁾
Senior Managing Partner, Infrastructure
Brookfield Asset Management Inc.

OFFICERS

Dominic Gammiero
Chairman

J. Peter Gordon
Chief Executive Officer

Jeffrey Dutton
President and
Chief Operating Officer

Glen McMillan
Senior Vice President
and Chief Financial Officer

William Manzer
Senior Vice President,
Business Strategy and Projects

Matthew Nightingale
Vice President, Marketing

Marina Mueller
Assistant Corporate Secretary

Committees of the Board:

- (1) Audit
- (2) Corporate Governance and Nominating
- (3) Environment, Health and Safety
- (4) Human Resources and Pension

For a full description of the Board committees, and corporate governance practices, please see Fraser Papers' Management Information Circular on our web site at www.fraserpapers.com

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Pulp sales

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Note: This report contains forward-looking information that is based on certain assumptions and reflects the Company's current expectations. Forward-looking information typically contains statements with words such as "consider", "anticipate", "believe", "expect", "plan", "intend", "likely", "will", "could", "seek", "estimate", "possible", "foresee", "can", "should" or similar words, or variations of those words suggesting future outcomes. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Significant risks that impact Fraser Papers' business and future performance are discussed in the Annual Information Form and other documents filed with Canadian securities regulatory authorities. The Company cautions that the list of risks and other factors discussed in those documents may not be exhaustive and readers should consider those risks, as well as other uncertainties and factors and potential events. Although Fraser Papers believes it has reasonable basis for making the forward-looking statements included in this report, readers are cautioned not to place undue reliance on such forward-looking information. Fraser Papers undertakes no obligation, except as required by law, to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

This annual report has been printed on Fraser Gorham 92 Opaque. Fraser produces a full line of opaque printing papers for end uses such as pharmaceutical inserts, reference materials, financial publications and commercial printing.

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Exhibit “G”

EXHIBIT "G"

Fraser Papers Inc.
Consolidated Balance Sheet
As at May 2, 2009

(US \$ millions)	May 2, 2009	December 31, 2008
Assets		
Current assets:		
Accounts receivable	\$ 56.3	\$ 67.9
Inventory	86.8	125.5
Future income taxes - current	0.7	0.3
	143.8	193.7
Property, plant and equipment	253.6	256.0
Other assets	65.3	60.9
	\$ 462.7	\$ 510.6
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	\$ 1.4	\$ 7.4
Accounts payable and accrued liabilities	72.6	78.0
Current portion of long-term debt	25.0	25.0
	99.0	110.4
Long-term debt	45.3	64.0
Other liabilities	49.9	48.4
Future income taxes	1.9	3.5
Shareholders' equity	266.6	284.3
	\$ 462.7	\$ 510.6

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Fraser Papers Inc.
Consolidated Statement of Earnings and Deficit
For the month ended May 2, 2009

(US \$ millions)	Month ended		Four months ended	
	May 2, 2009	April 26, 2008	May 2, 2009	April 26, 2008
Earnings				
Net sales	\$ 46.7	\$ 60.2	\$ 202.8	\$ 240.9
Cost of sales	47.9	62.1	209.1	247.7
Selling, general and administrative	1.8	2.3	7.3	9.3
	49.7	64.4	216.4	257.0
Earnings(loss) before following:	(3.0)	(4.2)	(13.6)	(16.1)
Interest expense, net	(0.3)	(0.3)	(1.5)	(1.0)
Depreciation	(2.4)	(2.2)	(10.5)	(9.6)
Income tax	0.3	0.3	3.5	1.2
Earnings (loss)	\$ (5.4)	\$ (6.4)	\$ (22.1)	\$ (25.5)
Deficit				
Balance, beginning of period	\$ (291.6)	\$ (222.1)	\$ (274.9)	\$ (203.0)
Earnings (loss)	(5.4)	(6.4)	(22.1)	(25.5)
Balance, end of period	\$ (297.0)	\$ (228.5)	\$ (297.0)	\$ (228.5)

Fraser Papers Inc.
Consolidated Statement of Comprehensive Income
For the month ended May 2, 2009

(US \$ millions)	Month ended		Four months ended	
	May 2, 2009	April 26, 2008	May 2, 2009	April 26, 2008
Earnings (losses)	(5.4)	(6.4)	(22.1)	(25.5)
Changes in unrealized net gains on cash flow hedges	6.0	(0.1)	7.1	(0.1)
Changes in unrealized gains on lumber hedges	-	-	(0.7)	-
Tax impact of above	(1.9)	0.1	(1.8)	0.1
Comprehensive earnings (losses)	\$ (1.3)	\$ (6.4)	\$ (17.5)	\$ (25.5)

Fraser Papers Inc.
Consolidated Statement of Accumulated Other Comprehensive Income
For the month ended May 2, 2009

(US \$ millions)	Month ended		Four months ended	
	May 2, 2009	April 26, 2008	May 2, 2009	April 26, 2008
Balance, beginning of period	3.1	0.2	2.6	0.2
Other comprehensive income	4.1	-	4.6	-
Balance, end of period	\$ 7.2	\$ 0.2	\$ 7.2	\$ 0.2

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Fraser Papers Inc.
Consolidated Statement of Cash Flow
For the month ended May 2, 2009

	Month ended		Four months ended	
	May 2, 2009	April 26, 2008	May 2, 2009	April 26, 2008
Cash Provided By (Used For):				
Operating Activities				
Earnings (Loss)	\$ (5.4)	\$ (6.3)	\$ (22.1)	\$ (25.4)
Items not affecting cash:				
Depreciation	2.4	2.2	10.5	9.6
Future income taxes	(0.3)	(0.4)	(3.7)	(1.4)
Other	2.1	(1.9)	4.4	(2.5)
	(1.2)	(6.4)	(10.9)	(19.7)
Change in non-cash working capital balances				
Accounts receivable	(1.1)	(2.6)	11.9	(0.3)
Inventory	10.5	6.8	38.6	5.9
Accounts payable	0.8	(10.1)	(6.1)	(9.7)
	10.2	(5.9)	44.4	(4.1)
	9.0	(12.3)	33.5	(23.8)
Investing Activities				
Capital investments	(2.0)	(0.5)	(7.9)	(3.9)
	(2.0)	(0.5)	(7.9)	(3.9)
Financing Activities				
Debt incurred (repaid), net	(4.9)	13.8	(19.6)	(33.0)
Share issued (repurchased)	-	-	-	59.7
	(4.9)	13.8	(19.6)	26.7
(Decrease) Increase in cash and short-term notes	\$ 2.1	\$ 1.0	\$ 6.0	\$ (1.0)
Cash and short-term notes, beginning of period	\$ (3.5)	\$ (6.3)	\$ (7.4)	\$ (4.3)
Cash and short-term notes, end of period	\$ (1.4)	\$ (5.3)	\$ (1.4)	\$ (5.3)

Fraser Papers Inc.
Consolidating Balance Sheet
As at May 2, 2009

	Fraser Papers Holdings Inc.	Fraser Papers Inc. (unconsolidated)	Eliminations	Fraser Papers Inc.
Assets				
Current assets:				
Cash and short-term notes	-	-	-	-
Accounts receivable	56.4	31.8	(31.9)	56.3
Inventory	55.4	31.4	-	86.8
Future income taxes - current	-	0.7	-	0.7
	111.8	63.9	(31.9)	143.8
Property, plant and equipment	118.5	135.1	-	253.6
Future income taxes - L/T	-	-	-	-
Investment in subsidiaries	-	432.6	(432.6)	-
Divisional Control	-	-	-	-
Other assets	(54.1)	119.4	-	65.3
	176.2	751.0	(464.5)	462.7
Liabilities and Shareholders' Equity				
Current liabilities:				
Bank advances	-	1.4	-	1.4
Accounts payable	61.5	42.9	(31.9)	72.5
Taxes Payable	-	0.1	-	0.1
Current portion of long-term debt	-	25.0	-	25.0
	61.5	69.4	(31.9)	99.0
Long-term debt	-	45.3	-	45.3
Other liabilities	17.1	32.8	-	49.9
Future income taxes	-	1.9	-	1.9
Shareholders' equity	97.6	601.6	(432.6)	266.6
	176.2	751.0	(464.5)	462.7

Fraser Papers Inc.
Consolidated Statement of Earnings and Deficit
For the month ended May 2, 2009

(US \$ millions)	Fraser Papers Holdings Inc.	Fraser Papers Inc. (unconsolidated)	Eliminations	Fraser Papers Inc.
Earnings				
Net sales	186.1	78.9	(62.2)	202.8
Cost of sales	176.4	94.9	(62.2)	209.1
Selling, general and administrative	3.5	3.8	-	7.3
	179.9	98.7	(62.2)	216.4
Earnings(loss) before following:	6.2	(19.8)	-	(13.6)
Intercompany management fee	-	-	-	-
Interest expense, net	0.1	(1.6)	-	(1.5)
Depreciation	(5.1)	(5.4)	-	(10.5)
Income tax	-	3.5	-	3.5
Earnings (loss)	1.2	(23.3)	-	(22.1)
Deficit				
Balance, beginning of period	(335.7)	60.8	-	(274.9)
Earnings (loss)	1.2	(23.3)	-	(22.1)
Balance, end of period	(334.5)	37.5	-	(297.0)

Fraser Papers Inc.
Consolidated Statement of Cash Flow
For the month ended May 2, 2009

	Fraser Papers Holdings Inc.	Fraser Papers Inc. (unconsolidated)	Eliminations	Fraser Papers Inc.
Cash Provided By (Used For):				
Operating Activities				
Earnings (Loss)	1.2	(23.3)	-	(22.1)
Items not affecting cash:				
Depreciation	5.1	5.4	-	10.5
Future income taxes	-	(3.7)	-	(3.7)
Restructuring charges	-	-	-	-
Other	2.6	1.8	-	4.4
	8.9	(19.8)	-	(10.9)
Change in non-cash working capital balances				
Accounts receivable	(6.0)	12.7	5.2	11.9
Inventory	30.5	8.1	-	38.6
Accounts payable	(6.5)	5.6	(5.2)	(6.1)
	18.0	26.4	-	44.4
	26.9	6.6	-	33.5
Investing Activities				
Capital investments	(2.1)	(5.8)	-	(7.9)
	(2.1)	(5.8)	-	(7.9)
Financing Activities				
Debt incurred (repaid), net	(21.4)	1.8	-	(19.6)
Share issued (repurchased)	-	-	-	-
	(21.4)	1.8	-	(19.6)
(Decrease) Increase in cash and short-term notes	3.4	2.6	-	6.0
Cash and short-term notes, beginning of period	(3.4)	(4.0)	-	(7.4)
Cash and short-term notes, end of period	(0.0)	(1.4)	-	(1.4)
	-	-	-	-

Fraser Papers Holdings Inc.
Consolidating Balance Sheet
As at May 2, 2009

(US \$ millions)	Fraser Papers Ltd.	Fraser Timber Ltd.	Corporate and Eliminations	Fraser Papers Holdings Inc.
Assets				
Current assets:				
Cash and short-term notes	(4.4)	(0.1)	4.5	-
Accounts receivable	56.2	0.2	-	56.4
Inventory	46.6	8.8	-	55.4
Future income taxes	-	-	-	-
	98.4	8.9	4.5	111.8
Property, plant and equipment	111.6	6.9	-	118.5
Future income taxes - L/T	-	-	-	-
Investment in subsidiaries	-	-	-	-
Interdivisional balances	(71.2)	(0.1)	71.3	-
Other assets	12.9	-	(67.0)	(54.1)
	151.7	15.7	8.8	176.2
Liabilities and Shareholders' Equity				
Current liabilities:				
Bank advances	-	-	-	-
Accounts payable	56.0	0.7	4.8	61.5
Taxes Payable	-	-	-	-
Current portion of long-term debt	-	-	-	-
	56.0	0.7	4.8	61.5
Long-term debt	-	-	-	-
Other liabilities	11.4	0.9	4.8	17.1
Future income taxes	7.7	4.9	(12.6)	-
Shareholders' equity	76.6	9.2	11.8	97.6
	151.7	15.7	8.8	176.2

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Fraser Papers Holdings Inc.
Consolidated Statement of Earnings and Deficit
For the month ended May 2, 2009

(US \$ millions)	Fraser Papers Ltd.	Fraser Timber Ltd.	Corporate and Eliminations	Fraser Papers Holdings Inc.
Earnings				
Net sales	185.2	0.9	-	186.1
Cost of sales	173.1	2.9	0.4	176.4
Selling, general and administrative	3.5	-	-	3.5
	176.6	2.9	0.4	179.9
Earnings(loss) before following:	8.6	(2.0)	(0.4)	6.2
Intercompany management fee	-	-	-	-
Interest expense, net	0.1	-	-	0.1
Depreciation	(4.3)	(0.8)	-	(5.1)
Income tax	-	-	-	-
Earnings (loss)	4.4	(2.8)	(0.4)	1.2
Deficit				
Balance, beginning of period	(228.7)	(37.8)	(69.2)	(335.7)
Earnings (loss)	4.4	(2.8)	(0.4)	1.2
Balance, end of period	(224.3)	(40.6)	(69.6)	(334.5)

Fraser Papers Holdings Inc.
Consolidated Statement of Cash Flow
For the month ended May 2, 2009

	Fraser Papers Ltd.	Fraser Timber Ltd.	Corporate and Eliminations	Fraser Papers Holdings Inc.
Cash Provided By (Used For):				
Operating Activities				
Earnings (Loss)	4.4	(2.8)	(0.4)	1.2
Items not affecting cash:				
Depreciation	4.3	0.8	-	5.1
Future income taxes	-	-	-	-
Restructuring charges	-	-	-	-
Other	2.7	0.1	(0.2)	2.6
	11.4	(1.9)	(0.6)	8.9
Change in non-cash working capital balances				
Accounts receivable	(7.2)	1.4	(0.2)	(6.0)
Inventory	32.5	(2.5)	0.5	30.5
Accounts payable	(3.2)	(2.0)	(1.3)	(6.5)
	22.1	(3.1)	(1.0)	18.0
	33.5	(5.0)	(1.6)	26.9
Investing Activities				
Capital investments	(2.1)	-	-	(2.1)
	(2.1)	-	-	(2.1)
Financing Activities				
Debt incurred (repaid), net	(29.9)	5.1	3.4	(21.4)
Share issued (repurchased)	-	-	-	-
	(29.9)	5.1	3.4	(21.4)
(Decrease) Increase in cash and short-term notes	1.5	0.1	1.8	3.4
Cash and short-term notes, beginning of period	(5.9)	(0.2)	2.7	(3.4)
Cash and short-term notes, end of period	(4.4)	(0.1)	4.5	(0.0)
	-	-	-	-

Fraser Papers Ltd.
Consolidating Balance Sheet
As at May 2, 2009

(US \$ millions)	Fraser NH LLC	Fraser Papers Ltd. (unconsolidated)	Eliminations	Fraser Papers Ltd.
Assets				
Current assets:				
Cash and short-term notes	(1.0)	(3.4)	-	(4.4)
Accounts receivable	7.8	56.3	(7.9)	56.2
Inventory	10.4	36.2	-	46.6
Future income taxes - current	-	-	-	-
	17.2	89.1	(7.9)	98.4
Property, plant and equipment	5.8	105.8	-	111.6
Future income taxes - L/T	-	-	-	-
Investment in subsidiaries	-	73.8	(73.8)	-
Interdivisional balances	(63.3)	(7.9)	-	(71.2)
Other assets	-	12.9	-	12.9
	(40.3)	273.7	(81.7)	151.7
Liabilities and Shareholders' Equity				
Current liabilities:				
Bank advances	-	-	-	-
Accounts payable	8.5	55.4	(7.9)	56.0
Taxes Payable	-	-	-	-
Current portion of long-term debt	-	-	-	-
	8.5	55.4	(7.9)	56.0
Long-term debt	-	-	-	-
Other liabilities	-	11.4	-	11.4
Future income taxes	-	7.7	-	7.7
Shareholders' equity	(48.8)	199.2	(73.8)	76.6
	(40.3)	273.7	(81.7)	151.7

Fraser Papers Ltd.
Consolidated Statement of Earnings and Deficit
For the month ended May 2, 2009

(US \$ millions)	Fraser NH LLC	Fraser Papers Ltd. (unconsolidated)	Eliminations	Fraser Papers Ltd.
Earnings				
Net sales	36.6	148.6	-	185.2
Cost of sales	31.2	141.9	-	173.1
Selling, general and administrative	-	3.5	-	3.5
	31.2	145.4	-	176.6
Earnings(loss) before following:	5.4	3.2	-	8.6
Intercompany management fee	(1.3)	1.3	-	-
Interest expense, net	-	0.1	-	0.1
Depreciation	(0.1)	(4.2)	-	(4.3)
Income tax	-	-	-	-
Earnings (loss)	4.0	0.4	-	4.4
Deficit				
Balance, beginning of period	(100.5)	(153.6)	25.4	(228.7)
Earnings (loss)	4.0	0.5	-	4.5
Balance, end of period	(96.5)	(153.1)	25.4	(224.2)

Fraser Papers Ltd.
Consolidated Statement of Cash Flow
For the month ended May 2, 2009

	Fraser NH LLC	Fraser Papers Ltd. (unconsolidated)	Eliminations	Fraser Papers Ltd.
Cash Provided By (Used For):				
Operating Activities				
Earnings (Loss)	4.0	0.4	-	4.4
Items not affecting cash:				
Depreciation	0.1	4.2	-	4.3
Future income taxes	-	-	-	-
Restructuring charges	-	-	-	-
Other	(0.9)	3.6	-	2.7
	3.2	8.2	-	11.4
Change in non-cash working capital balances				
Accounts receivable	3.7	(7.8)	(3.1)	(7.2)
Inventory	4.3	28.2	-	32.5
Accounts payable	(1.4)	(4.9)	3.1	(3.2)
	6.6	15.5	-	22.1
	9.8	23.7	-	33.5
Investing Activities				
Capital investments	(0.2)	(1.9)	-	(2.1)
	(0.2)	(1.9)	-	(2.1)
Financing Activities				
Debt incurred (repaid), net	(10.3)	(19.6)	-	(29.9)
Share issued (repurchased)	-	-	-	-
	(10.3)	(19.6)	-	(29.9)
(Decrease) Increase in cash and short-term notes	(0.7)	2.2	-	1.5
Cash and short-term notes, beginning of period	(0.3)	(5.6)	-	(5.9)
Cash and short-term notes, end of period	(1.0)	(3.4)	-	(4.4)
	-	-	-	-

Exhibit “H”

172.

EXHIBIT "H"

PPSA SUMMARY – FRASER PAPERS INC.

New Brunswick

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
11229481	CIT Business Credit Canada Inc., as Agent <i>(amended from CIT Business Credit Canada Inc. on Apr. 29/08)</i>	Fraser Papers Inc.	July 14, 2004 (exp. July 14, 2014)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration. Added Sept. 22/08: Intercreditor Agreement between the parties dated June 16, 2008 regarding rights, priorities and interest of the parties in collateral of the debtor.
11229515	CIT Business Credit Canada Inc., as Agent <i>(amended from CIT Business Credit Canada Inc. on Apr. 29/08)</i>	Fraser Papers Holdings Inc.	July 14, 2004 (exp. July 14, 2014)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration. Added Sept. 22/08: Intercreditor Agreement between the parties dated June 16, 2008 regarding rights, priorities and interest of the parties in collateral of the debtor.
11229598	CIT Business Credit Canada Inc., as Agent <i>(amended from CIT Business Credit Canada Inc. on Apr. 29/08)</i>	Fraser Papers Limited	July 14, 2004 (exp. July 14, 2014)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration. Added Sept. 22/08: Intercreditor Agreement between the parties dated June 16, 2008 regarding rights, priorities and interest of the parties in collateral of the debtor.

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
11516325	Xerox Canada Ltd.	Fraser Paper Inc.	October 1, 2004 (exp. Oct. 1, 2010)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
11626025	Xerox Canada Ltd.	Fraser Papers Inc.	November 3, 2004 (exp. Nov. 3, 2010)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
11881018	Xerox Canada Ltd.	Fraser Papers Inc.	February 2, 2005 (exp. Feb. 2, 2010)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
12085890	Xerox Canada Ltd.	Fraser Papers Inc.	April 7, 2005 (exp. Apr. 7, 2010)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
12156709	Caterpillar Financial Services Limited	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc. • Papiers Fraser Inc. • FPS Canada Inc. <i>(added May 24/05)</i>	April 26, 2005 (exp. Apr. 26, 2009)	2005 Caterpillar 966GII VIN CAT0966GHANZ01170

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
12192274	Xerox Canada Ltd.	Fraser Papers Inc.	May 4, 2005 (exp. May 4, 2010)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
12860623	Xerox Canada Ltd.	Fraser Papers Inc.	October 26, 2005 (exp. Oct. 26, 2010)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
13119169	National Leasing Group Inc.	Fraser Papers Inc.	January 16, 2006 (exp. Jan. 16, 2012)	All postage mail/machines & scales of every nature or kind described in lease number 2324294, between the secured party, as lessor and the debtor as lessee, as amended from time to time, together with all attachments, accessories and substitutions.
13340278	Xerox Canada Ltd.	Fraser Papers Inc.	March 27, 2006 (exp. Mar. 27, 2012)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or an affiliate thereof. Classifications: equipment, other.

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
13368048	Xerox Canada Ltd.	Fraser Papers Inc.	April 3, 2006 (exp. Apr. 3, 2011)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
13446927	Praxair Canada Inc.	• Fraser Papers Inc. (Canada) • Papiers Fraser Inc. (Canada)	April 24, 2006 (exp. Apr. 24, 2011)	Collateral classification includes equipment. Collateral description – equipment supplied by the secured party, consisting of bulk cryogenic storage tanks used for the storage, filling and delivery of industrial and medical gases including, without limitation, argon, carbon dioxide, nitrogen, nitrous oxide and oxygen, and cryogenic freezers, together with all related accessories, parts, components and attachments and all proceeds of or relating to any of the foregoing as well as all present or after-acquired property that may be derived from the sale or other disposition of the collateral described herein.
13691910	Caterpillar Financial Services Limited	• Fraser Inc. • Papier Fraser Inc. • Fraser Paper Inc. • Papiers Fraser Inc. • Fraser Papers Inc. • FPS Canada Inc.	June 20, 2006 (exp. June 20, 2010)	2006 Caterpillar D8T VIN CAT00D8THKPZ01166 2006 Craig 45CYD Blade VIN T5112105 Together with all accessions and proceeds including goods, documents of title, chattel paper, security, instruments, money or intangibles or any other personal property received when such collateral or proceeds are sold, collected, dealt with or otherwise disposed of.

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
14236251	Export Development Canada/Exportation et Développement Canada	Fraser Papers Inc. Papiers Fraser Inc.	November 15, 2006 (exp. Nov. 15, 2009)	All present and future claims, accounts and other intangibles representing the refund of cash deposits, together with all accrued interest on such deposits, to which the United States Customs and Border Protection has determined the debtor is entitled under the Softwood Lumber Agreement entered into between the Government of Canada and the Government of the United States, including, without limitation: The refund of all deposits covered by the "Antidumping Duty Order regarding certain softwood lumber from Canada", 67 Fed.Reg.36,068 (May 22, 2002), as amended; and The refund of all deposits covered by the "Countervailing Duty Order regarding certain softwood lumber from Canada", 67 Fed.Reg.36,070 (May 22, 2002), as amended. Together with all present and future accounts, intangibles, instruments, chattel paper, documents of title, securities and money, and all proceeds of the foregoing in any form, including goods, documents of title, chattel paper, securities, instruments, money and intangibles, and all proceeds thereof. This registration relates to an absolute assignment of the refund of cash deposits and accrued interest identified as collateral.

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
15548886	Motion Industries (Canada) Inc.	Fraser Papers Inc./Papiers Fraser Inc.	November 6, 2007 (exp. Nov. 6, 2017)	PMSI Registration Fraser Papers Inc./Papiers Fraser Inc. Fraser Inc. Lengthy additional information – please see registration.
16015851	Brookfield Asset Management Inc.	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc./Papiers Fraser Inc. • Papiers Fraser Inc./Fraser Papers Inc.	April 4, 2008 (exp. Apr. 4, 2013)	All the debtors' present and after acquired personal property including, without limitation, all goods (including all parts, equipment, inventory, accessories, attachments, special tools, additions and accessions thereto), chattel paper, documents of title (whether negotiable or not), instruments, books and records, receivables, intangibles, money and securities now owned or hereafter owned or acquired by or on behalf of the debtor and all proceeds and renewal thereof, accretions thereto and substitutions therefor. <i>Added Sept. 22/08:</i> Intercreditor Agreement between the parties dated June 16, 2008 regarding rights, priorities and interest of the parties in collateral of the debtor.
16375628	Her Majesty the Queen in Right of the Province of New Brunswick, as represented by the Minister of Business New Brunswick	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc./Papiers Fraser Inc. • Papiers Fraser Inc./Fraser Papiers Inc.	June 24, 2008 (exp. June 24, 2013)	All the debtors' present and after acquired personal property including, without limitation, all goods (including all parts, equipment, inventory, accessories, attachments, special tools, additions and accessions thereto), chattel paper, documents of title (whether negotiable or not), instruments, books and records, receivables, intangibles, money and securities now owned or hereafter owned or acquired by

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
16375628 (cont'd)		•		or on behalf of the debtor and all proceeds and renewals thereof, accretions thereto and substitutions therefor. <i>Added Sept. 22/08:</i> Intercreditor Agreement between the parties dated June 16, 2008 regarding rights, priorities and interest of the parties in collateral of the debtor.

Quebec

Inscription	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
04-0442355-0003	CIT Business Credit Canada Inc.	• Fraser Papers Inc. • Papiers Fraser Inc.	July 27, 2004 (exp. July 26, 2014)	-\$100,000,000 plus an additional amount equal to 20% thereof, the whole with interest from the date hereof at the rate of 25% per annum. -Please see registration for entire description.
05-0638343-0001	Services Financiers CIT Ltée.	• Papiers Fraser Inc. • Fraser Papers Inc.	November 9, 2005 (exp. Oct. 31, 2011)	-Please see registration for listing of equipment.
06-0055407-0011	Xerox Canada Inc.	Fraser Papers Inc.	February 3, 2006 (exp. Jan. 21, 2011)	Equipment, other -All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof.
06-055407-0021	Xerox Canada Ltd.	Fraser Papers Inc.	February 3, 2006 (exp. Feb. 1, 2011)	Equipment, other -All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof.

Inscription	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
06-0695366-0001	CIT Business Credit Canada Inc.	• Papiers Fraser Inc. • Fraser Papers Inc.	December 1, 2006 (exp. Nov. 30, 2016)	- \$150,000,000, plus an additional amount of \$30,000,000 the whole with interest at the rate of 25% per annum. - The Holder authorized the Grantor to collect when due the capital falling due of, and any revenues of, any other claim until the Holder shall have given the Grantor a notice withdrawing such authorization. - Please see registration for entire description.
07-062914-0001	Kinecor LP	Fraser Papers Inc. Canada	October 31, 2007 (exp. Oct. 31, 2017)	- Appears to relate to a consignment agreement between Kinecor LP and Fraser Papers Inc. Canada
08-0251027-0001	CIT Business Credit Canada Inc.	Fraser Papers Inc.	May 5, 2008 (exp. May 1, 2018)	- \$207,000,000 (including an additional hypothec of \$34,500,000), the hole with interest thereon at the rate of 25% per annum. - Please see registration for entire description.
08-0420056-0002	Brookfield Asset Management Inc.	Fraser Papers Inc. / Papiers Fraser Inc.	July 18, 2008 (exp. July 18, 2018)	- \$25,000,000 US with interest at the rate of 25% per annum plus an additional hypothec in the amount of \$5,000,000 US. - Please see registration for entire description.
08-0644185-0001	Brookfield Asset Management Inc.	• Fraser Papers Inc. • Papiers Fraser Inc.	November 7, 2008 (exp. Nov. 7, 2018)	- Registered on title to multiple properties - \$150,000,000 with interest at the rate of 25% per annum plus an additional hypothec in the amount of \$30,000,000 - The Grantor may collect all accounts receivable and other claims forming part of the Collateral until the Holder withdraws its authorization. - Please see registration for entire description.

Ontario

Reference File No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
607541616	CIT Business Credit Canada Inc., as Agent (amended from CIT Business Credit Canada Inc. on May 2/08)	Fraser Papers Limited	July 22, 2004 (exp. July 22, 2014)	Inv, equip, accts, other -The security interest in "equipment" (as defined in the <i>Personal Property Security Act</i>) is limited to all present and future books, records, ledger cards, disks and related data processing software in all forms relating to the other collateral classifications referred to above. Partial discharge on Feb. 18/05 relating to Jan. 5/05 Asset Purchase Agreement – please see registration.
607541553	CIT Business Credit Canada Inc., as Agent (amended from CIT Business Credit Canada Inc. on May 2/08)	Fraser Papers Inc.	July 22, 2004 (exp. July 22, 2014)	Inv, equip, accts, other -The security interest in "equipment" (as defined in the <i>Personal Property Security Act</i>) is limited to all present and future books, records, ledger cards, disks and related data processing software in all forms relating to the other collateral classifications referred to above.
618768189	CIT Financial Ltd.	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc. / Papiers Fraser Inc.	September 12, 2005 (exp. Sept. 12, 2012)	Equip, other -Photocopying equipment
622439064	Xerox Canada Ltd.	• Fraser Papers Inc.	February 1, 2006 (exp. Feb. 1, 2011)	Equip, other
623664675	GE Vehicle and Equipment Leasing	• Norbord Inc. • Fraser Papers Inc. / Papiers Fraser Inc. • Papiers Fraser Inc. / Fraser Papers Inc. • Fraser Papers Inc. • Papiers Fraser Inc. • Norbord Industries Inc. / Industries Norbord Inc.	March 24, 2006 (exp. Mar. 24, 2011)	Inv, equip, accts, other, MV incl. -All present and after acquired motor vehicles, trailers, and goods of whatever make or description, now or hereafter leased by the secured party to the debtor, together with all additions, replacement parts, accessions, attachments and improvements thereto, and all proceeds thereof, including

Reference File No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
623664675 (cont'd)		- Industries Norbord Inc. / Norbord Industries Inc. - Norbord Industries Inc. - Industries Norbord Inc.		money, chattel paper, intangibles, goods, documents of title, securities, substitutions, accounts receivable, rental and loan contracts, all personal property returned, traded in or repossessed and all insurance proceeds and any other form of proceeds thereof.
625365738	GE Vehicle and Equipment Leasing	- Fraser Papers Inc. / Papiers Fraser Inc. - Papiers Fraser Inc. / Fraser Papers Inc. - Fraser Papers Inc. - Papiers Fraser Inc.	May 19, 2006 (exp. May 19, 2010)	Inv, equip, accts, other, MV incl. -2005 Toyota Sienna VIN 5TDZA23CXS336944 -All present and after acquired motor vehicles, trailers and goods of whatever make or description, now or hereafter leased by the secured party to the debtor, together with all additions, replacement parts, accessions, attachments and improvements thereto, and all proceeds thereof, including money, chattel paper, intangibles, goods, documents of title, securities, substitutions, accounts receivable, rental and loan contracts, all personal property returned, traded in or repossessed and all insurance proceeds and any other form of proceeds thereof.
626242059	Royal Bank of Canada	- Fraser Papers Inc. - Papiers Fraser Inc. - Fraser Papers Inc. / Papiers Fraser Inc. - Papiers Fraser Inc. / Fraser Papers Inc.	June 16, 2006 (exp. June 16, 2024)	Accts, other -All funds on deposit, including in account no. 893-50043-1-0, held pursuant to a cash collateral agreement between Royal Bank of Canada and the debtor, as same may be amended, revised, supplemented, replaced or restated from time to time and all conversions, transfers and investments of such monies.

Reference File No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
630129879	Export Development Canada	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc. Papiers Inc. • Papiers Fraser Inc. Fraser Papers Inc. • FPS Canada Inc. • Fraser Paper Juniper • Fraser Paper Plaster Rock • Fraser Plaster Rock	October 27, 2006 (exp. Oct. 27, 2009)	Accts, other -Absolute assignment of all the present and future claims, accounts and other intangibles representing the refund of all cash deposits together with all accrued interest on such deposits to which the United States Customs and Border Protection has determined the debtor is entitled under the Softwood Lumber Agreement entered into between the Government of Canada the Government of the United States, including, without limitation, the refund of all deposits covered by the "Antidumping Duty Order regarding certain softwood lumber from Canada", 67 Fed.Reg.36,068 (May 22, 2002), as amended, and the refund of all deposits covered by the "Countervailing Duty Order regarding certain softwood lumber from Canada", 67 Fed.Reg.36,070 (May 22, 2002), as amended.
634045401	Buckman Laboratores, Inc.	• Fraser Papers Limited • Fraser Papers, Inc.	April 4, 2007 (exp. Apr. 4, 2012)	Equip, other -See registration for lengthy listing of equipment.
643909428	Brookfield Asset Management Inc.	Fraser Papers Limited	April 4, 2008 (exp. Apr. 4, 2013)	Inv, equip, accts, other, MV incl.
643909374	Brookfield Asset Management Inc.	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc. / Papiers Fraser Inc. • Papiers Fraser Inc. / Fraser Papers Inc.	April 4, 2008 (exp. Apr. 4, 2013)	Inv, equip, accts, other, MV incl.
646522767	Xerox Canada Ltd.	Fraser Papers Inc.	June 30, 2008 (exp. June 30, 2014)	Equip, other, no fixed maturity date

PPSA SUMMARY – FPS CANADA INC.

New Brunswick

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
11229507	CIT Business Credit Canada Inc., as Agent (amended from CIT Business Credit Canada Inc. on Apr. 29/08)	FPS Canada Inc.	July 14, 2004 (exp. July 14, 2014)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration.
11962578	LiftCapital Corporation (amended from LiftCapital Corporation/Corporation LiftCapital on May 9/06)	FPS Canada Inc.	March 2, 2005 (exp. Mar. 2, 2010)	2005 Toyota 7FGCU30 Lift Truck, serial number 64783 -Material handling equipment together with all parts, attachments, accessories, additions, batteries, chargers, repair parts, and other equipment placed on or forming part of the goods described herein with any proceeds thereof and therefrom including, without limitation, all goods, securities, instruments, documents of title, chattel paper and intangibles (as defined in the <i>Personal Property Security Act</i>).
12156709	Caterpillar Financial Services Limited	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc. • Papiers Fraser Inc. • FPS Canada Inc. (added May 24/05)	April 26, 2005 (exp. Apr. 26, 2009)	2005 Caterpillar 966GII VIN CAT0966GHANZ01170
12277372	LiftCapital Corporation (amended from LiftCapital Corporation/Corporation LiftCapital on May 9/06)	FPS Canada Inc.	May 25, 2005 (exp. May 25, 2010)	2005 Toyota 7FGCU30 Lift Truck, serial number 67066 -Material handling equipment together with all parts, attachments, accessories, additions, batteries, chargers, repair parts, and other equipment placed on or forming part of the goods described herein with any proceeds thereof and therefrom including, without limitation, all goods, securities, instruments,

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
12277372 (cont'd)				documents of title, chattel paper and intangibles (as defined in the <i>Personal Property Security Act</i>).
12647665	CIT Financial Ltd.	FPS Canada Inc.	August 24, 2005 (exp. Aug. 24, 2010)	Motorola mobile radios, together with all accessions, attachments, accessories and proceeds in any form including goods, documents of title, chattel paper, securities, instruments, money or intangibles.
12741831	CIT Financial Ltd.	FPS Canada Inc.	September 20, 2005 (exp. Sept. 20, 2011)	Avaya Definity telephone system, together with all accessions, attachments, accessories and proceeds in any form including goods, documents of title, chattel paper, securities, instruments, money or intangibles.
13106067	John Deere Limited	FPS Canada Inc.	January 11, 2006 (exp. Jan. 11, 2010)	John Deere 744J VIN DW744JX599785 -One (1) John Deere 744J 4WD loader, together with all attachments, accessories, accessions, replacements, substitutions, additions, improvements thereto and all proceeds of every type, item or kind in any form derived directly or indirectly from any dealing with collateral including without limitation trade-ins, equipment, inventory, goods, notes, chattel paper, contract rights, accounts, rental payments, securities, intangibles, documents of title and money and all proceeds of proceeds and a right to any insurance payment and any other payment that indemnifies or compensates for loss or damage to the collateral or the proceeds of the collateral.

Reg. No	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
13106075	John Deere Limited	FPS Canada Inc.	January 11, 2006 (exp. Jan. 11, 2010)	John Deere 744J VIN DW744JX600707 -same further description of collateral as previous John Deere registration.
13691910	Caterpillar Financial Services Limited	• Fraser Inc. • Papier Fraser Inc. • Fraser Paper Inc. • Papiers Fraser Inc. • Fraser Papers Inc. • FPS Canada Inc.	June 20, 2006 (exp. June 20, 2010)	2006 Caterpillar D8T VIN CAT00D8THKPZ01166 2006 Craig 45CYD Blade VIN T5112105 -Together with all accessions and proceeds including goods, documents of title, chattel paper, security, instruments, money or intangibles or any other personal property received when such collateral or proceeds are sold, collected, dealt with or otherwise disposed of.
13888896	John Deere Limited	FPS Canada Inc.	August 10, 2006 (exp. Aug. 10, 2010)	John Deere 744J VIN DW744JX606627 -same further description of collateral as previous John Deere registration.
13995162	GMAC Leaseco Corporation	FPS Canada Inc.	September 7, 2006 (exp. Sept. 7, 2010)	2006 GMC Sierra VIN 1GTEK14X76Z286320 -And all proceeds therefrom.
13995253	GMAC Leaseco Corporation	FPS Canada Inc.	September 7, 2006 (exp. Sept. 7, 2010)	2007 Chevrolet Silverado VIN 2GCEK13VX71150306 -And all proceeds therefrom.
14194492	Irwin Commercial Finance Canada Corporation	FPS Canada Inc.	November 1, 2006 (exp. Nov. 1, 2009)	2000 JLG 1932E3 VIN 0200083120 -JLG 1932E3 scissor lift(s) together with all attachments, accessories, accessions, replacements, substitutions, additions and improvements thereto and all proceeds in any form derived directly or indirectly from any sale and or dealings with the collateral and a right to an insurance payment or other payment that indemnifies or compensates for loss or damage to the

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
14194492 (cont'd)				collateral or proceeds of the collateral.
14649669	Caterpillar Financial Services Limited	FPS Canada Inc.	March 26, 2007 (exp. Mar. 26, 2011)	2007 Caterpillar 966H VIN CAT0966HEA6D00770 -Together with all accessions and proceeds including goods, documents of title, chattel paper, security, instruments, money or intangibles or any other personal property received when such collateral or proceeds are sold, collected, dealt with or otherwise disposed of.
14664262	Caterpillar Financial Services Limited	FPS Canada Inc.	March 29, 2007 (exp. Mar. 29, 2011)	2006 Caterpillar 966H VIN CAT0966HLA6D00314 -Together with all accessions and proceeds including goods, documents of title, chattel paper, security, instruments, money or intangibles or any other personal property received when such collateral or proceeds are sold, collected, dealt with or otherwise disposed of.
14671697	Caterpillar Financial Services Limited	FPS Canada Inc.	March 30, 2007 (exp. Mar. 30, 2011)	2006 Caterpillar 950H VIN CAT0950HEK5K00255 -Together with all accessions and proceeds including goods, documents of title, chattel paper, security, instruments, money or intangibles or any other personal property received when such collateral or proceeds are sold, collected, dealt with or otherwise disposed of.
14678981	Caterpillar Financial Services Limited	FPS Canada Inc.	April 2, 2007 (exp. Apr. 2, 2011)	2007 Caterpillar 950H VIN CAT0950HCK5K01138 -Together with all accessions and proceeds including goods, documents of title, chattel paper, security, instruments, money or intangibles or any other personal property

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
14678981 (cont'd)				received when such collateral or proceeds are sold, collected, dealt with or otherwise disposed of.
14922223	GMAC Leaseco Corporation	FPS Canada Inc.	May 30, 2007 (exp. May 30, 2011)	2007 Chevrolet Silverado VIN 1GCEK14C97Z537059 -And all proceeds therefrom.
16015984	Brookfield Asset Management Inc.	FPS Canada Inc.	April 4, 2008 (exp. Apr. 4, 2013)	All the debtor's present and after acquired personal property including, without limitation, all goods (including all parts, equipment, inventory, accessories, attachments, special tools, additions and accessions thereto), chattel paper, documents of title (whether negotiable or not), instruments, books and records, receivables, intangibles, money and securities now owned or hereafter owned or acquired y or on behalf of the debtor and all proceeds and renewals thereof, accretions thereto and substitutions therefor.
16138026	GMAC Leaseco Corporation	FPS Canada Inc.	May 2, 2008 (exp. May 2, 2012)	2008 Chevrolet Silverado VIN 1GCEC14X18Z203285 -And all proceeds therefrom.
16204166	GMAC Leaseco Corporation	FPS Canada Inc.	May 16, 2008 (exp. May 16, 2012)	2008 GMC Sierra VIN 1GTEK14X88Z223522 -And all proceeds therefrom.
16204174	GMAC Leaseco Corporation	FPS Canada Inc.	May 16, 2008 (exp. May 16, 2012)	2008 GMC Sierra VIN 1GTEK14X08Z228178 -And all proceeds therefrom.

Quebec

Inscription	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
04-0442355-0001	CIT Business Credit Canada Inc.	FPS Canada Inc.	July 27, 2004 (exp. July 26, 2014)	-\$100,000,000, plus an additional amount equal to 20% thereof, the whole with interest from the date hereof at the rate of 25% per annum. -Please see registration for entire description.
06-0695366-0002	CIT Business Credit Canada Inc.	FPS Canada Inc.	December 1, 2006 (exp. Nov. 30, 2016)	-\$150,000,000, plus an additional amount of \$30,000,000 the whole with interest at the rate of 25% per annum. -The Holder authorizes the Grantor to collect when due the capital falling due of, and any revenues of, any other claim until the Holder shall have given the Grantor a notice withdrawing such authorization. -Please see registration for entire description.
07-0146660-0063	• Demers Chevrolet Inc. • La Compagnie GMAC Location • GMAC Leaseco Corporation	FPS Canada Inc.	March 22, 2007 (exp. Mar. 12, 2011)	2007 Chevrolet Colorado VIN 1GCDT13E278158776 -And all proceeds therefrom.
08-0251027-0003	CIT Business Credit Canada Inc.	FPS Canada Inc.	May 5, 2008 (exp. May 1, 2018)	-\$207,000,000 (including an additional hypothec of \$34,500,000), the whole with interest thereon at the rate of 25% per annum. -Please see registration for entire description.

Ontario

Reference File No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
607541535	CIT Business Credit Canada Inc., as Agent (amended from CIT Business Credit Canada Inc. on May 2/08)	FPS Canada Inc.	July 22, 2004 (exp. July 22, 2014)	Inv, equip, accts, other -The security interest in "equipment" (as defined in the <i>Personal Property Security Act</i>) is limited to all present and future books, records, ledger cards, disks and related data processing software in all forms relating to the other collateral classifications referred to above.
630129879	Export Development Canada	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc. Papiers Inc. • Papiers Fraser Inc. Fraser Papers Inc. • FPS Canada Inc. • Fraser Paper Juniper • Fraser Paper Plaster Rock • Fraser Plaster Rock	October 27, 2006 (exp. Oct. 27, 2009)	Accts, other -Absolute assignment of all the present and future claims, accounts and other intangibles representing the refund of all cash deposits together with all accrued interest on such deposits to which the United States Customs and Border Protection has determined the debtor is entitled under the Softwood Lumber Agreement entered into between the Government of Canada the Government of the United States, including, without limitation, the refund of all deposits covered by the "Antidumping Duty Order regarding certain softwood lumber from Canada", 67 Fed.Reg.36,068 (May 22, 2002), as amended, and the refund of all deposits covered by the "Countervailing Duty Order regarding certain softwood lumber from Canada", 67 Fed.Reg.36,070 (May 22, 2002), as amended.
643909392	Brookfield Asset Management Inc.	FPS Canada Inc.	April 4, 2008 (exp. Apr. 4, 2013)	Inv, equip, accts, other, MV incl.

PPSA SUMMARY – FRASER PAPERS HOLDINGS INC.

New Brunswick

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
11229515	CIT Business Credit Canada Inc., as Agent (amended from CIT Business Credit Canada Inc. on Apr. 29/08)	Fraser Papers Holdings Inc.	July 14, 2004 (exp. July 14, 2014)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration. Added Sept. 22/08: Intercreditor Agreement between the parties dated June 16, 2008 regarding rights, priorities and interest of the parties in collateral of the debtor.

Quebec

Inscription	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
N/A				

Ontario

Reference File No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
607541544	CIT Business Credit Canada Inc., as Agent (amended from CIT Business Credit Canada Inc. on May 2/08)	Fraser Papers Holdings Inc.	July 22, 2004 (exp. July 22, 2014)	Inv, equip, accts, other -The security interest in "equipment" (as defined in the <i>Personal Property Security Act</i>) is limited to all present and future books, records, ledger cards, disks and related data processing software in all forms relating to the other collateral classifications referred to above.
643909401	Brookfield Asset Management Inc.	Fraser Papers Holdings Inc.	April 4, 2008 (exp. Apr. 4, 2013)	Inv, equip, accts, other, MV incl.

PPSA SUMMARY – FRASER TIMBER LIMITED

New Brunswick

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
11229549	CIT Business Credit Canada Inc., as Agent (amended from CIT Business Credit Canada Inc. on Apr. 29/08)	Fraser Timber Limited	July 14, 2004 (exp. July 14, 2014)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration.

Quebec

Inscription	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
N/A				

Ontario

Reference File No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
607541598	CIT Business Credit Canada Inc., as Agent (amended from CIT Business Credit Canada Inc. on May 2/08)	Fraser Timber Limited	July 22, 2004 (exp. July 22, 2014)	Inv, equip, accts, other -The security interest in "equipment" (as defined in the <i>Personal Property Security Act</i>) is limited to all present and future books, records, ledger cards, disks and related data processing software in all forms relating to the other collateral classifications referred to above.
630799137	Export Development Canada	Fraser Timber Limited	November 22, 2006 (exp. Nov. 22, 2009)	Accts, other -Absolute assignment of all the present and future claims, accounts and other intangibles representing the refund of all cash deposits together with all accrued interest on such deposits to which the United States Customs and Border Protection has determined the debtor is entitled under the Softwood Lumber Agreement entered into between the Government of Canada the Government of the United States, including, without limitation, the refund of all

Reference File No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
630799137 (cont'd)				deposits covered by the "Antidumping Duty Order regarding certain softwood lumber from Canada", 67 Fed.Reg.36,068 (May 22, 2002), as amended, and the refund of all deposits covered by the "Countervailing Duty Order regarding certain softwood lumber from Canada", 67 Fed.Reg.36,070 (May 22, 2002), as amended.
643909419	Brookfield Asset Management Inc.	Fraser Timber Limited	April 4, 2008 (exp. Apr. 4, 2013)	Inv, equip, accts, other, MV incl.

PPSA SUMMARY – FRASER PAPERS LIMITED

New Brunswick

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
11229598	CIT Business Credit Canada Inc., as Agent (amended from CIT Business Credit Canada Inc. on Apr. 29/08)	Fraser Papers Limited	July 14, 2004 (exp. July 14, 2014)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration. Added Sept. 22/08: Intercreditor Agreement between the parties dated June 16, 2008 regarding rights, priorities and interest of the parties in collateral of the debtor.
11229481	CIT Business Credit Canada Inc., as Agent (amended from CIT Business Credit Canada Inc. on Apr. 29/08)	Fraser Papers Inc.	July 14, 2004 (exp. July 14, 2014)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration. Added Sept. 22/08: Intercreditor Agreement between the parties dated June 16, 2008 regarding rights, priorities and interest of the parties in collateral of the debtor.
11229515	CIT Business Credit Canada Inc., as Agent (amended from CIT Business Credit Canada Inc. on Apr. 29/08)	Fraser Papers Holdings Inc.	July 14, 2004 (exp. July 14, 2014)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration. Added Sept. 22/08: Intercreditor Agreement between the parties dated June 16, 2008 regarding rights, priorities and interest of the parties in collateral of the debtor.

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
11516325	Xerox Canada Ltd.	Fraser Paper Inc.	October 1, 2004 (exp. Oct. 1, 2010)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
11626025	Xerox Canada Ltd.	Fraser Papers Inc.	November 3, 2004 (exp. Nov. 3, 2010)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
11881018	Xerox Canada Ltd.	Fraser Papers Inc.	February 2, 2005 (exp. Feb. 2, 2010)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
12085890	Xerox Canada Ltd.	Fraser Papers Inc.	April 7, 2005 (exp. Apr. 7, 2010)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
12156709	Caterpillar Financial Services Limited	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc. Papiers Fraser Inc. • FPS Canada Inc. <i>(added May 24/05)</i>	April 26, 2005 (exp. Apr. 26, 2009)	2005 Caterpillar 966GII VIN CAT0966GHANZ01170

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
12192274	Xerox Canada Ltd.	Fraser Papers Inc.	May 4, 2005 (exp. May 4, 2010)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
12860623	Xerox Canada Ltd.	Fraser Papers Inc.	October 26, 2005 (exp. Oct. 26, 2010)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
13119169	National Leasing Group Inc.	Fraser Papers Inc.	January 16, 2006 (exp. Jan. 16, 2012)	All postage mail/machines & scales of every nature or kind described in lease number 2324294, between the secured party, as lessor and the debtor as lessee, as amended from time to time, together with all attachments, accessories and substitutions.
13340278	Xerox Canada Ltd.	Fraser Papers Inc.	March 27, 2006 (exp. Mar. 27, 2012)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or an affiliate thereof. Classifications: equipment, other.

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
13368048	Xerox Canada Ltd.	Fraser Papers Inc.	April 3, 2006 (exp. Apr. 3, 2011)	All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof. Classifications: equipment, other.
13446927	Praxair Canada Inc.	• Fraser Papers Inc. (Canada) • Papiers Fraser Inc. (Canada)	April 24, 2006 (exp. Apr. 24, 2011)	Collateral classification includes equipment. Collateral description – equipment supplied by the secured party, consisting of bulk cryogenic storage tanks used for the storage, filling and delivery of industrial and medical gases including, without limitation, argon, carbon dioxide, nitrogen, nitrous oxide and oxygen, and cryogenic freezers, together with all related accessories, parts, components and attachments and all proceeds of or relating to any of the foregoing as well as all present or after-acquired property that may be derived from the sale or other disposition of the collateral described herein.
13691910	Caterpillar Financial Services Limited	• Fraser Inc. • Papier Fraser Inc. • Fraser Paper Inc. • Papiers Fraser Inc. • Fraser Papers Inc. • FPS Canada Inc.	June 20, 2006 (exp. June 20, 2010)	2006 Caterpillar D8T VIN CAT00D8THKPZ01166 2006 Craig 45CYD Blade VIN T5112105 Together with all accessions and proceeds including goods, documents of title, chattel paper, security, instruments, money or intangibles or any other personal property received when such collateral or proceeds are sold, collected, dealt with or otherwise disposed of.

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
14236251	Export Development Canada/Exportation et Développement Canada	Fraser Papers Inc. Papiers Fraser Inc.	November 15, 2006 (exp. Nov. 15, 2009)	All present and future claims, accounts and other intangibles representing the refund of cash deposits, together with all accrued interest on such deposits, to which the United States Customs and Border Protection has determined the debtor is entitled under the Softwood Lumber Agreement entered into between the Government of Canada and the Government of the United States, including, without limitation: The refund of all deposits covered by the "Antidumping Duty Order regarding certain softwood lumber from Canada", 67 Fed.Reg.36,068 (May 22, 2002), as amended; and The refund of all deposits covered by the "Countervailing Duty Order regarding certain softwood lumber from Canada", 67 Fed.Reg.36,070 (May 22, 2002), as amended. Together with all present and future accounts, intangibles, instruments, chattel paper, documents of title, securities and money, and all proceeds of the foregoing in any form, including goods, documents of title, chattel paper, securities, instruments, money and intangibles, and all proceeds thereof. This registration relates to an absolute assignment of the refund of cash deposits and accrued interest identified as collateral.

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
15548886	Motion Industries (Canada) Inc.	Fraser Papers Inc./Papiers Fraser Inc.	November 6, 2007 (exp. Nov. 6, 2017)	PMSI Registration Fraser Papers Inc./Papiers Fraser Inc. Fraser Inc. Lengthy additional information – please see registration.
16015851	Brookfield Asset Management Inc.	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc./Papiers Fraser Inc. • Papiers Fraser Inc./Fraser Papers Inc.	April 4, 2008 (exp. Apr. 4, 2013)	All the debtors' present and after acquired personal property including, without limitation, all goods (including all parts, equipment, inventory, accessories, attachments, special tools, additions and accessions thereto), chattel paper, documents of title (whether negotiable or not), instruments, books and records, receivables, intangibles, money and securities now owned or hereafter owned or acquired by or on behalf of the debtor and all proceeds and renewal thereof, accretions thereto and substitutions therefor. <i>Added Sept. 22/08:</i> Intercreditor Agreement between the parties dated June 16, 2008 regarding rights, priorities and interest of the parties in collateral of the debtor.
16375628	Her Majesty the Queen in Right of the Province of New Brunswick, as represented by the Minister of Business New Brunswick	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc./Papiers Fraser Inc. • Papiers Fraser Inc./Fraser Papers Inc.	June 24, 2008 (exp. June 24, 2013)	All the debtors' present and after acquired personal property including, without limitation, all goods (including all parts, equipment, inventory, accessories, attachments, special tools, additions and accessions thereto), chattel paper, documents of title (whether negotiable or not), instruments, books and records, receivables, intangibles, money and securities now owned or hereafter owned or acquired by

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
16375628 (cont'd)		•		or on behalf of the debtor and all proceeds and renewals thereof, accretions thereto and substitutions therefor. <i>Added Sept. 22/08:</i> Intercreditor Agreement between the parties dated June 16, 2008 regarding rights, priorities and interest of the parties in collateral of the debtor.

Quebec

Inscription	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
04-0442355-0003	CIT Business Credit Canada Inc.	• Fraser Papers Inc. • Papiers Fraser Inc.	July 27, 2004 (exp. July 26, 2014)	-\$100,000,000 plus an additional amount equal to 20% thereof, the whole with interest from the date hereof at the rate of 25% per annum. -Please see registration for entire description.
05-0638343-0001	Services Financiers CIT Ltée.	• Papiers Fraser Inc. • Fraser Papers Inc.	November 9, 2005 (exp. Oct. 31, 2011)	-Please see registration for listing of equipment.
06-0055407-0011	Xerox Canada Inc.	Fraser Papers Inc.	February 3, 2006 (exp. Jan. 21, 2011)	Equipment, other -All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof.
06-055407-0021	Xerox Canada Ltd.	Fraser Papers Inc.	February 3, 2006 (exp. Feb. 1, 2011)	Equipment, other -All present and future office equipment and software supplied or financed from time to time by the secured party (whether by lease, conditional sale or otherwise), whether or not manufactured by the secured party or any affiliate thereof.

Inscription	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
06-0695366-0001	CIT Business Credit Canada Inc.	• Papiers Fraser Inc. • Fraser Papers Inc.	December 1, 2006 (exp. Nov. 30, 2016)	-\$150,000,000, plus an additional amount of \$30,000,000 the whole with interest at the rate of 25% per annum. -The Holder authorized the Grantor to collect when due the capital falling due of, and any revenues of, any other claim until the Holder shall have given the Grantor a notice withdrawing such authorization. -Please see registration for entire description.
08-0251027-0001	CIT Business Credit Canada Inc.	Fraser Papers Inc.	May 5, 2008 (exp. May 1, 2018)	-\$207,000,000 (including an additional hypothec of \$34,500,000), the hole with interest thereon at the rate of 25% per annum. -Please see registration for entire description.
08-0644185-0001	Brookfield Asset Management Inc.	• Fraser Papers Inc. • Papiers Fraser Inc.	November 7, 2008 (exp. Nov. 7, 2018)	-Registered on title to multiple properties -\$150,000,000 with interest at the rate of 25% per annum plus an additional hypothec in the amount of \$30,000,000 -The Grantor may collect all accounts receivable and other claims forming part of the Collateral until the Holder withdraws its authorization. -Please see registration for entire description.

Ontario

Reference File No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
607541616	CIT Business Credit Canada Inc., as Agent (<i>amended from CIT Business Credit Canada Inc. on May 2/08</i>)	Fraser Papers Limited	July 22, 2004 (exp. July 22, 2014)	Inv, equip, accts, other -The security interest in "equipment" (as defined in the <i>Personal Property Security Act</i>) is limited to all present and future books, records, ledger cards, disks and related data processing software in all forms relating to the other collateral classifications referred to above. <i>Partial discharge on Feb. 18/05 relating to Jan. 5/05 Asset Purchase Agreement – please see registration.</i>
607541553	CIT Business Credit Canada Inc., as Agent (<i>amended from CIT Business Credit Canada Inc. on May 2/08</i>)	Fraser Papers Inc.	July 22, 2004 (exp. July 22, 2014)	Inv, equip, accts, other -The security interest in "equipment" (as defined in the <i>Personal Property Security Act</i>) is limited to all present and future books, records, ledger cards, disks and related data processing software in all forms relating to the other collateral classifications referred to above.
618768189	CIT Financial Ltd.	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc. / Papiers Fraser Inc.	September 12, 2005 (exp. Sept. 12, 2012)	Equip, other -Photocopying equipment
622439064	Xerox Canada Ltd.	• Fraser Papers Inc.	February 1, 2006 (exp. Feb. 1, 2011)	Equip, other
623664675	GE Vehicle and Equipment Leasing	• Norbord Inc. • Fraser Papers Inc. / Papiers Fraser Inc. • Papiers Fraser Inc. / Fraser Papers Inc. • Fraser Papers Inc. • Papiers Fraser Inc. • Norbord Industries Inc. / Industries Norbord Inc.	March 24, 2006 (exp. Mar. 24, 2011)	Inv, equip, accts, other, MV incl. -All present and after acquired motor vehicles, trailers, and goods of whatever make or description, now or hereafter leased by the secured party to the debtor, together with all additions, replacement parts, accessions, attachments and improvements thereto, and all proceeds thereof, including

Reference File No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
623664675 (cont'd)		- Industries Norbord Inc. / Norbord Industries Inc. - Norbord Industries Inc. - Industries Norbord Inc.		money, chattel paper, intangibles, goods, documents of title, securities, substitutions, accounts receivable, rental and loan contracts, all personal property returned, traded in or repossessed and all insurance proceeds and any other form of proceeds thereof.
625365738	GE Vehicle and Equipment Leasing	- Fraser Papers Inc. / Papiers Fraser Inc. - Papiers Fraser Inc. / Fraser Papers Inc. - Fraser Papers Inc. - Papiers Fraser Inc.	May 19, 2006 (exp. May 19, 2010)	Inv, equip, accts, other, MV incl. -2005 Toyota Sienna VIN 5TDZA23CXS336944 -All present and after acquired motor vehicles, trailers and goods of whatever make or description, now or hereafter leased by the secured party to the debtor, together with all additions, replacement parts, accessions, attachments and improvements thereto, and all proceeds thereof, including money, chattel paper, intangibles, goods, documents of title, securities, substitutions, accounts receivable, rental and loan contracts, all personal property returned, traded in or repossessed and all insurance proceeds and any other form of proceeds thereof.
626242059	Royal Bank of Canada	- Fraser Papers Inc. - Papiers Fraser Inc. - Fraser Papers Inc. / Papiers Fraser Inc. - Papiers Fraser Inc. / Fraser Papers Inc.	June 16, 2006 (exp. June 16, 2024)	Accts, other -All funds on deposit, including in account no. 893-50043-1-0, held pursuant to a cash collateral agreement between Royal Bank of Canada and the debtor, as same may be amended, revised, supplemented, replaced or restated from time to time and all conversions, transfers and investments of such monies.

Reference File No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
630129879	Export Development Canada	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc. Papiers Inc. • Papiers Fraser Inc. Fraser Papers Inc. • FPS Canada Inc. • Fraser Paper Juniper • Fraser Paper Plaster Rock • Fraser Plaster Rock	October 27, 2006 (exp. Oct. 27, 2009)	Accts, other -Absolute assignment of all the present and future claims, accounts and other intangibles representing the refund of all cash deposits together with all accrued interest on such deposits to which the United States Customs and Border Protection has determined the debtor is entitled under the Softwood Lumber Agreement entered into between the Government of Canada the Government of the United States, including, without limitation, the refund of all deposits covered by the "Antidumping Duty Order regarding certain softwood lumber from Canada", 67 Fed.Reg.36,068 (May 22, 2002), as amended, and the refund of all deposits covered by the "Countervailing Duty Order regarding certain softwood lumber from Canada", 67 Fed.Reg.36,070 (May 22, 2002), as amended.
634045401	Buckman Laboratores, Inc.	• Fraser Papers Limited • Fraser Papers, Inc.	April 4, 2007 (exp. Apr. 4, 2012)	Equip, other -See registration for lengthy listing of equipment.
643909428	Brookfield Asset Management Inc.	Fraser Papers Limited	April 4, 2008 (exp. Apr. 4, 2013)	Inv, equip, accts, other, MV incl.
643909374	Brookfield Asset Management Inc.	• Fraser Papers Inc. • Papiers Fraser Inc. • Fraser Papers Inc. / Papiers Fraser Inc. • Papiers Fraser Inc. / Fraser Papers Inc.	April 4, 2008 (exp. Apr. 4, 2013)	Inv, equip, accts, other, MV incl.
646522767	Xerox Canada Ltd.	Fraser Papers Inc.	June 30, 2008 (exp. June 30, 2014)	Equip, other, no fixed maturity date

PPSA SUMMARY – FRASER N.H. LLC

New Brunswick

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
11229614	CIT Business Credit Canada Inc., as Agent (amended from CIT Business Credit Canada Inc. on Apr. 29/08)	Fraser N.H. LLC	July 14, 2004 (exp. July 14, 2014)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration.

Quebec

Inscription	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
N/A				

Ontario

Reference File No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
607541625	CIT Business Credit Canada Inc., as Agent (amended from CIT Business Credit Canada Inc. on May 2/08)	Fraser N.H. LLC	July 22, 2004 (exp. July 22, 2014)	Inv, equip, accts, other -The security interest in "equipment" (as defined in the <i>Personal Property Security Act</i>) is limited to all present and future books, records, ledger cards, disks and related data processing software in all forms relating to the other collateral classifications referred to above.
643909437	Brookfield Asset Management Inc.	Fraser N.H. LLC	April 4, 2008 (exp. Apr. 4, 2013)	Inv, equip, accts, other, MV incl.

Exhibit “I”

205.

EXHIBIT "I"

UCC LIEN SUMMARY – FRASER PAPERS INC.

DELAWARE

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
40707705	E.I. Du Pont de Nemours & Company	Fraser Papers Inc.	March 12, 2004 (continued on March 5, 2009, expires March 12, 2014)	Pursuant to a consignment agreement, Du Pont is to supply titanium dioxide to Fraser. Du Pont retains all ownership, rights, title and interest in the titanium dioxide until title is transferred to Fraser as set forth in the agreement.
42151092	CIT Business Credit Canada Inc., as Agent <i>(amended from CIT Business Credit Canada Inc. on Apr. 30/08)</i>	Fraser Papers Holdings Inc.	July 30, 2004 (exp. July 30, 2009)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration.
81194057	Brookfield Asset Management, Inc.	Fraser Papers Holdings Inc.	April 4, 2008 (expires April 4, 2013)	All personal property of every kind and nature, including all goods (including inventory, equipment, and accessions thereto), instruments (including promissory notes), documents, accounts (including health care insurance receivables), chattel paper (whether tangible or electronic), deposit accounts, letter of credit rights (whether or not the letter of credit is evidenced by a writing), commercial tort claims, securities and all other investment property, supporting obligations, any other contract rights or rights to payment of money, insurance claims and proceeds, and all other general intangibles.
43417732	Caterpillar Financial Services Corp.	Fraser Papers Limited	December 6, 2004 (expires December 6, 2009)	One Caterpillar 938GII Wheel Loader, serial number CRD01118, and substitutions, replacements, additions, and accessions thereto.
42151068	CIT Business Credit Canada Inc., as Agent <i>(amended from CIT Business Credit Canada Inc. on Apr. 30/08)</i>	Fraser N.H. LLC	July 30, 2004 (expires July 30, 2009)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration.

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
50723818	Caterpillar Financial Services Corp.	Fraser N.H. LLC	March 7, 2005 (expires March 7, 2010)	One Caterpillar 246 Skid Steer Loader, serial number 5SZ06927, One Caterpillar 246 Skid Steer Loader, serial number 5SZ06928, One Caterpillar 246 Skid Steer Loader, serial number 5SZ06933, and substitutions, replacements, additions, and accessions thereto.
14761818	Brookfield Asset Management, Inc.	Fraser N.H. LLC	April 29, 2008 (expires April 29, 2013)	All personal property of every kind and nature, including all goods (including inventory, equipment, and accessions thereto), instruments (including promissory notes), documents, accounts (including health care insurance receivables), chattel paper (whether tangible or electronic), deposit accounts, letter of credit rights (whether or not the letter of credit is evidenced by a writing), commercial tort claims, securities and all other investment property, supporting obligations, any other contract rights or rights to payment of money, insurance claims and proceeds, and all other general intangibles.

NEW HAMPSHIRE

Inscription	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
626255	Munce's Superior, Inc.	Fraser N.H. LLC	September 2, 2003 (lapsed September 2, 2008 – only included b/c there was no filing of termination statement)	Various tanks, reels, and other equipment. -Please see registration for entire description.
200600063 93M	Munce's Superior, Inc.	Fraser N.H. LLC	March 21, 2006 (expires March 21, 2011)	One BS&B Water Bath Vaporizer, Manufacturer #42062, Model 32-6SC-45178-01, and One 18,000 Atlas Tank Manufacturer Co. Serial Number 1295, date of manufacture – 1972.
200800072 63K	Brookfield Asset Management, Inc.	Fraser N.H. LLC	April 4, 2008 (expires April 4, 2013)	All personal property of every kind and nature, including all goods (including inventory, equipment, and accessions thereto), instruments (including promissory notes), documents, accounts (including health care insurance receivables), chattel paper (whether tangible or electronic), deposit accounts, letter of credit rights (whether or not the letter of credit is evidenced by a writing), commercial tort claims, securities and all other investment property, supporting obligations, any other contract rights or rights to payment of money, insurance claims and proceeds, and all other general intangibles.

MAINE

Reference File No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
207000185 0188-60	Buckman Laboratories, Inc.	Fraser Papers Inc., Madawaska Mill	March 29, 2007 (expires March 29, 2012)	Various equipment - the list of secured equipment is long and detailed (please see registration statement)
207000185 1390-46	Buckman Laboratories, Inc.	Fraser Papers Limited	April 4, 2007 (expires April 4, 2012)	Various equipment - the list of secured equipment is long and detailed, and is identical to that on the Fraser Papers Inc. UCC filing (please see registration statement)
204000168 6410-52	CIT Business Credit Canada Inc., as Agent <i>(amended from CIT Business Credit Canada Inc. on April 30/08)</i>	Fraser Papers Limited	August 10, 2004 (expires August 10, 2009)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration. - On February 22, 2005, the following collateral was added: All right, title and interest in the Purchased Assets (as defined in the APA dated January 5, 2005 between Fraser Papers Limited, Premium Paper Holdco LLC, Smart Papers LLC, PF Papers LLC, and Sun Paper Holdco LLC; provided that the foregoing does not release any right, title or interest in and to bank accounts, safe deposit boxes or bank accounts of the Debtor, or books and records of the Debtor related to the Excluded Assets defined in the APA. - On February 23, 2005, that same collateral was deleted.
204000170 1436-98	IBM Credit LLC	Fraser Papers Limited	November 2, 2004 (expires November 2, 2009)	The following equipment with related software: IBM Equipment Type 3581 5733 9406 9910 9994 999G 9SSR, and substitutions, replacements, additions, and accessions thereto.
205000171 4230-95	IBM Credit LLC	Fraser Papers Limited	January 13, 2005 (expires January 13, 2010)	The following equipment with related software: IBM Equipment Type 3580 5733 9406 9910 9SSR, and substitutions, replacements, additions, and accessions thereto.

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
205000172 4160-58	ICX Corporation (assigned to ICX by Wells Fargo Bank Northwest N.A., as Owner Trustee, as Lessor	Fraser Papers Limited	March 10, 2005 (expires March 10, 2010)	All right, title and interest acquired by Lessee in (i) the Equipment as more fully described in the Operative Lease Agreement, dated September 17, 1982 between Lessee and Secured Party; (ii) all proceeds with respect to the Equipment or any part thereof; (iii) all insurance proceeds with respect to the Equipment or any part thereof.
208000190 0380-81	Ciba Specialty Chemicals Corp., n/k/a Ciba Corp.	Fraser Papers Limited	January 22, 2008 (expires January 22, 2013)	All products consigned to Fraser Papers Limited under that Consignment Agreement dated July 1, 2007 between Fraser Papers Limited and Ciba, including but not limited to property insurance proceeds arising out of the sale, damage, or loss of the products consigned.
208000191 408-44	Brookfield Asset Management, Inc.	Fraser Papers Limited	April 4, 2008 (expires April 4, 2013)	All personal property of every kind and nature, including all goods (including inventory, equipment, and accessions thereto), instruments (including promissory notes), documents, accounts (including health care insurance receivables), chattel paper (whether tangible or electronic), deposit accounts, letter of credit rights (whether or not the letter of credit is evidenced by a writing), commercial tort claims, securities and all other investment property, supporting obligations, any other contract rights or rights to payment of money, insurance claims and proceeds, and all other general intangibles.
208001950 991-24	NMHG Financial Services, Inc., as lessor	Fraser Papers Limited	December 23, 2008 (expires December 23, 2013)	All of the equipment now or hereafter leased by Lessor to Lessee; and all accessions, additions, replacements, and substitutions thereto and therefore; and all proceeds including insurance proceeds thereof.

Reg. No.	Secured Party	Debtor	Date of Registration	Collateral Secured and Comments
209000197 0898-13	Motion Industries, Inc., as consignor	Fraser Papers Limited	May 13, 2009 (expires May 13, 2014)	Maintenance, repair, operational assets, materials, parts, equipment, supplies, and other tangible personal property, held for resale, use or consumption in Debtor's (Consignee's) business and supplied by Secured Party (Consignor) under consignment or other agreement.
204000168 6409-20	CIT Business Credit Canada Inc., as Agent <i>(amended from CIT Business Credit Canada Inc. on April 30/08)</i>	Fraser Timber Limited	August 10, 2004 (expires August 10, 2009)	All present and after-acquired "accounts", "inventory", "documents of title" and "other collateral". Description is lengthy – please see registration. - On March 22, 2007, certain claims representing refunds of anti-dumping duties pursuant to agreements between the United States and Canada were deleted from collateral. See registration for more detail.
296000181 2273-92	Caterpillar Financial Services Corp.	Fraser Timber Limited	July 25, 2006 (expires July 25, 2010)	One Caterpillar 966GII Wheel Loader, serial number ANZ00395, and substitutions, replacements, additions and accessions thereto, now owned or hereafter acquired and proceeds thereof.
208001911 411-98	Brookfield Asset Management Inc.	Fraser Timber Limited	April 4, 2008 (exp. Apr. 4, 2013)	I All personal property of every kind and nature, including all goods (including inventory, equipment, and accessions thereto), instruments (including promissory notes), documents, accounts (including health care insurance receivables), chattel paper (whether tangible or electronic), deposit accounts, letter of credit rights (whether or not the letter of credit is evidenced by a writing), commercial tort claims, securities and all other investment property, supporting obligations, any other contract rights or rights to payment of money, insurance claims and proceeds, and all other general intangibles.

Exhibit “J”

Fraser Papers Inc. and Subsidiaries
Combined 5 Week Cash Flow Forecast
USD (in 000's)

	1	2	3	4	5	
Week Beginning	18-Jun	22-Jun	29-Jun	6-Jul	13-Jul	Total
Receipts						
Collection of Trade Accounts Receivable	1,561	2,767	9,474	10,045	9,967	33,814 Note 1
Collection of Other Accounts Receivable	0	0	0	930	0	930 Note 2
Total Receipts	1,561	2,767	9,474	10,975	9,967	34,744
Disbursements:						
Raw Material Costs	1,305	9,093	5,865	5,273	5,409	26,945 Note 3
Productions Overhead Costs	328	1,841	1,041	828	816	4,854 Note 4
Selling, General & Admin Costs	0	2,116	810	745	1,495	5,165 Note 5
Employee Costs	330	2,977	2,344	3,015	1,685	10,350 Note 6
Pre-filing Debt Interest & Other Bank Charges	0	24	508	0	17	549 Note 7
DIP Interest & Fees	0	1,122	18	0	0	1,141 Note 8
Hedging Gains/Losses	0	(275)	(269)	(323)	(359)	(1,226) Note 9
Capital Expenditures	0	236	192	240	246	914 Note 10
Other	0	460	499	334	334	1,627 Note 11
Total Disbursements	1,963	17,594	11,008	10,111	9,643	50,320
Net Cash Flow	(402)	(14,827)	(1,534)	865	324	(15,576)
Estimated Opening Cash Balance	1,400	1,400	1,400	1,400	1,400	1,400
DIP Loan Advance/ (Repayment)	402	14,827	1,534	(865)	(324)	15,576 Note 12
Closing Cash Balance	1,400	1,400	1,400	1,400	1,400	1,400
DIP Cumulative Draw	(402)	(15,230)	(16,764)	(15,899)	(15,576)	(15,576)

This Cash Flow Forecast must be read in conjunction with the Notes and Assumptions attached hereto.

EXHIBIT "J"

Fraser Papers Inc. and Subsidiaries

Unaudited Combined 5 Week Cash Flow for the Period

Notes and Assumptions

- 1 Third Party Trade Receivables consist of receipts from the Paper and Pulp and Lumber operations. The timing of receipt collections are based on historical collection rates and have been adjusted for the Company's filing for court protection on June 18, 2009.
- 2 Collection of Other Accounts Receivable primarily includes the collection of a quarterly management fee paid by Katahdin Paper Company LLC ("Katahdin"), an affiliate of Brookfield, for the management of Katahdin's facilities.
- 3 Raw material costs represent materials required for production, primarily fibre and chemicals costs. The raw material costs are based on historical costs and expected required purchases throughout the 5 week period. Forecast payment for raw materials have been adjusted for reduced credit terms.
- 4 Productions Overhead Costs primarily represent supplies and consumables, repairs and maintenance, and property taxes. These costs are based on forecast production levels, historical costs incurred on a mill level and expected costs based on the forecast operations of each of the mills. The paper mills are expected to remain operational throughout the restructuring period. The other operations may be subject to shutdowns during part or all of the restructuring period.
- 5 Selling, General and Admin costs primarily represent shipping and freight, general and admin fees, insurance payments and legal and professional fees in respect of the CCAA process. Costs are based on historical expenses, with forecast increases for insurance payments. Restructuring professional fees of the Applicant's legal advisors, the Monitor and its legal counsel are based on advice from those advisors.
- 6 Employee costs represent salaries, wages, vacation pay, current service pension contributions and other post-employment benefits. Hourly payroll, salary costs and benefits are based on forecast headcount required at a mill level. Pension disbursements are in respect of current service costs only.
- 7 Interest charges are based on CIBC, CIT and Province of New Brunswick interest and fees.
- 8 Dip Interest and Fees are based on the BAM DIP Financing agreement and the CIT Financing Agreement.
- 9 Hedging Gains and Losses are based on contractual payments resulting from expiring hedging positions, assuming the actual foreign exchange rate is US\$1=C\$0.90
- 10 Capital Expenditures primarily represent forecast maintenance expenditures at the Applicants' East Papers operation.
- 11 Other expenses primarily represent costs associated with closed landfill sites and regular general and administrative costs pertaining to each mill.
- 12 DIP Loan Advances represent advance funds received by the Applicants pursuant to the DIP Financing agreement and the CIT Financing Agreement.
- 13 The Consolidated 5 Week Cash Flow is denominated in USD. A foreign exchange rate of \$0.90 has been assumed throughout the 5 Week Cash Flow Forecast.

Exhibit “K”

June 17, 2009

DEBTOR-IN-POSSESSION COMMITMENT LETTER

PERSONAL AND CONFIDENTIAL

Fraser Papers Inc.

Attention: Paul E. Gagné

Gentlemen:

This debtor-in-possession commitment letter agreement (together with all exhibits and annexes hereto, the "*DIP Commitment Letter*") will confirm the understanding and agreement among Brookfield Asset Management Inc. ("*BAM*"), and Fraser Papers Inc.. (the "*Company*"), in connection with a proposed secured super-priority debtor-in-possession revolving loan facility of US\$[] (the "*DIP Facility*") to fund the continued operation of the Company's business as debtor under the Canadian Companies' Creditors Arrangement Act ("*CCAA*") and related proceedings under the U.S. Bankruptcy Code.

I. The Commitment.

You have requested that BAM and/or its affiliates and managed funds (collectively, the "*Initial Lenders*", and collectively with each Additional Lender (as defined below), the "*Lenders*") commit to provide the entire amount of the DIP Facility upon the terms and subject to the conditions set forth or referred to in this DIP Commitment Letter and in the Summary of Terms of DIP Facility attached hereto as Exhibit A (together with any annexes thereto, the "*DIP Term Sheet*"). Based on the foregoing, (i) BAM is pleased to confirm by this DIP Commitment Letter its commitment to you (the "*BAM Commitment*") to provide or cause one or more of its affiliates or managed funds to provide the full amount of the DIP Facility (the "*Commitment*").

It is agreed that the Lenders will have no duties other than those expressly set forth herein. You agree that no agents, co-agents, arrangers or book-runners will be appointed, no other titles will be awarded and no compensation (other than that expressly contemplated by the DIP Term Sheet) will be paid in connection with the DIP Facility unless you and we so agree.

II. Conditions.

The Commitment and agreements of the Lenders described herein are subject to (i) the absence of any event or occurrence which has resulted in or could reasonably be expected to result in, individually or in the aggregate, any material adverse change in the assets, liabilities, business, operations or condition (financial or otherwise) of the Company and its subsidiaries, taken as a whole (other than any events which customarily occur as a result of events leading up to and following the commencement of a proceeding under the CCAA (and including, without limitation, those reflected in the financial projections heretofore made available in writing to the Initial Lenders); (ii) the accuracy and completeness of all representations that you and your affiliates make to the Lenders and all Information (as defined herein) that you, your affiliates or representatives furnish to the Lenders; (iii) payment of all reasonable and documented fees and expenses; and (iv) the other conditions set forth herein or in the DIP Term Sheet.

III. Fees and Expenses.

In consideration of the execution and delivery of this DIP Commitment Letter by the Initial Lenders, you agree to pay the fees and expenses set forth herein and in the DIP Term Sheet as and when payable in accordance with the terms thereof.

IV. Indemnification.

The Company hereby agrees to indemnify and hold harmless the Administrative Agent (as defined in the DIP Term Sheet), the Initial Lenders, the other Lenders and each of their respective affiliates and all their respective officers, directors, partners, trustees, employees, shareholders, advisors, agents, representatives, attorneys and controlling persons and each of their respective heirs, successors and assigns (each, an "*Indemnified Person*") from and against any and all losses, claims, damages and liabilities to which any Indemnified Person may become subject arising out of or in connection with this DIP Commitment Letter and the DIP Facility, the use of the proceeds therefrom, any of the other transactions contemplated by this DIP Commitment Letter, any other transaction related thereto or any claim, litigation, investigation or proceeding relating to any of the foregoing, regardless of whether any Indemnified Person is a party thereto and whether or not the transactions contemplated hereby are consummated, and to reimburse each Indemnified Person promptly upon demand for all legal and other expenses reasonably incurred by it in connection with investigating, preparing to defend or defending, or providing evidence in or preparing to serve or serving as a witness with respect to, any lawsuit, investigation, claim or other proceeding relating to any of the foregoing (including, without limitation, in connection with the enforcement of the indemnification obligations set forth herein); provided that no Indemnified Person will be entitled to indemnity hereunder in respect of any loss, claim, damage, liability or expense to the extent that it is found by a final, non-appealable judgment of a court of competent jurisdiction that such loss, claim, damage, liability or expense resulted directly from the gross negligence, actual fraud or willful misconduct of such Indemnified Person. If for any reason the foregoing indemnification is unavailable to an Indemnified Person or insufficient to hold it harmless, then the Company shall contribute to the amount paid or payable by such Indemnified Person as a result of such loss, claim, damage or liability in such proportion to reflect the economic interests of (i) the Company and its respective affiliates, stockholders or other equity holders on the one hand and (ii) such Indemnified Person on the other hand in the matters contemplated by the this DIP Commitment Letter as well as the relative fault of (i) the Company and its respective affiliates, stockholders or other equity holders on the one hand and (ii) such Indemnified Person with respect to such loss, claim, damage or liability and any other relevant equitable considerations. In no event will any Indemnified Person be liable on any theory of liability for indirect, special or consequential damages, lost profits or punitive damages as a result of any failure to fund any of the DIP Facility contemplated hereby or otherwise in connection with the DIP Facility. No Indemnified Person will be liable for any damages arising from the use by unauthorized

persons of information, projections or other materials sent through electronic, telecommunications or other information transmission systems that are intercepted by unauthorized persons.

V. Expiration of Commitment.

The Commitment will expire at 5:00 p.m., Toronto time, on June __, 2009 unless on or prior to such time you have executed and returned to the Initial Lenders a copy of this DIP Commitment Letter. If you do so execute and deliver to the Initial Lenders this DIP Commitment Letter, the Lenders agree to hold the Commitment available for you until 5:00 p.m., Toronto time, on [____], 2009. The Commitment hereunder will terminate on the later of the Closing Date (as defined in the DIP Term Sheet), and the execution of a definitive credit agreement, and you agree to rely exclusively on your rights and the Commitment set forth in such definitive credit agreement in respect of all loans and extensions of credit to be made on or after such date. In addition, the Commitment of each Initial Lender hereunder shall be ratably reduced to the extent of any purchase or commitment to purchase by an Additional Lender obtained pursuant to a joinder agreement satisfactory to the Initial Lenders (a "*Joinder Agreement*"), in respect of the DIP Facility as contemplated hereunder.

VI. Assignment and Syndication.

The parties hereto agree that each Lender shall have the right to assign its Commitment as provided for in the DIP Term Sheet.

Prior to the Closing Date, a transferee of an Initial Lender shall become a party to this DIP Commitment Letter (an "*Additional Lender*") by execution by such Additional Lender and the Initial Lenders of a Joinder Agreement.

VII. Information.

You hereby represent and covenant that (i) all information other than financial projections (the "*Information*") that has been or will be made available to the Lenders by you or any of your affiliates or representatives is or will be, when furnished, complete and correct in all material respects and does not or will not, when furnished, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements are made and (ii) the financial projections (the "*Projections*") that have been or will be made available to the Lenders by you or any of your affiliates or representatives have been or will be prepared in good faith based upon reasonable assumptions. You understand that in arranging the DIP Facility and the Commitment the Lenders may use and rely on the Information and Projections without independent verification thereof and that you will promptly notify us of any changes in circumstances that could be expected to call into question the continued reasonableness of any assumption underlying the Projections. You agree that if at any time prior to the Closing Date any of the representations in the preceding sentences would be incorrect if the Information and Projections were being furnished, and if such representations were made, at such time, you will promptly supplement the Information and Projections so that such representations will be correct under those circumstances.

VIII. Survival.

The provisions of this DIP Commitment Letter relating to the payment of fees and expenses, indemnification and contribution and confidentiality and the provisions of Sections III, IV, VIII and IX hereof will survive the expiration or termination of the Commitment or this DIP Commitment Letter (including any extensions) and the execution and delivery of definitive financing documentation.

IX. Choice of Law; Jurisdiction; Waivers.

This DIP Commitment Letter will be governed by and construed in accordance with the laws of Ontario and the federal laws of Canada applicable therein. The Company hereby irrevocably submits to the non-exclusive jurisdiction of the courts of the Province of Ontario in respect of any suit, action or proceeding arising out of or relating to the provisions of this DIP Commitment Letter and irrevocably agrees that all claims in respect of any such suit, action or proceeding may be heard and determined in any such court. The parties hereto hereby waive any objection that they may now or hereafter have to the laying of venue of any such suit, action or proceeding brought in any such court, and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. The parties hereto hereby waive, to the fullest extent permitted by applicable law, any right to trial by jury with respect to any action or proceeding arising out of or relating to this DIP Commitment Letter.

X. Withholding.

The payment and issuance of fees, costs, expenses, compensation and other amounts under Section III hereof ("*Subject Payments*") will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities or expenses related thereto) imposed or levied by or on behalf of any authority or agency having power to tax (hereinafter, the "*Taxes*"), unless the Company is required to withhold or deduct any amount for or on account of Taxes by law or by the interpretation or administration thereof. If the Company is required to withhold or deduct any amount for or on account of such Taxes in respect of the Subject Payments, the Company will remit such Taxes.

The Company will furnish each Lender, within 30 days after the date the payment of any Taxes described in the preceding paragraph is due pursuant to applicable law, evidence of such payment by the Company. The Company will indemnify and hold harmless each Indemnified Person and will, upon written request of such Indemnified Person, reimburse each Indemnified Person for Taxes, other than any Taxes now or hereafter imposed, levied, collected, withheld or assessed on an Indemnified Person under the laws of an applicable jurisdiction as a result of such Indemnified Person (i) carrying on a trade or business in such jurisdiction; (ii) being organized under the laws of such jurisdiction; (iii) being resident or deemed to be resident in such jurisdiction; or (iv) not dealing at arm's length (within the meaning of applicable tax law or regulation) with the Company at the time of payment, (collectively "*Excluded Taxes*"), for the amount of (x) any such Taxes, other than Excluded Taxes, so levied or imposed and paid by such Indemnified Person and (y) any Taxes so levied or imposed with respect to any reimbursement under the foregoing clause (x).

XI. Miscellaneous.

This DIP Commitment Letter may be executed in one or more counterparts, each of which will be deemed an original, but all of which taken together will constitute one and the same instrument. Delivery of an executed signature page of this DIP Commitment Letter by facsimile or ".pdf" transmission will be effective as delivery of a manually executed counterpart hereof. This DIP Commitment Letter may not be amended or waived except by an instrument in writing signed by (i) Initial Lenders representing at least 50% of the aggregate Commitment held by all Initial Lenders, (ii) for so long as BAM together with its affiliates and managed funds hold no less than 20% of the Commitment, BAM, and (iii) you; provided that the consent of each Lender adversely affected thereby shall be required for (i) increases in the Commitment of such Lender, (ii) waivers, reductions or postponements of

scheduled payment of principal, interest or fees payable to such Lender, (iii) extensions of final maturity of the loans or Commitments of such Lender, (iv) modifications to this paragraph or the definition of "Required Lenders" in the DIP Term Sheet, or releases of all or substantially all of the value of the Guarantees or all or a material portion of the Collateral.

The Company may not assign any of its rights, or be relieved of any of its obligations hereunder, without the prior written consent of each of the Lenders (and any purported assignment without such consent will be null and void). In connection with any syndication of all or a portion of the Commitment, the rights and obligations of each Lender hereunder may be assigned, in whole or in part, in accordance with the terms set forth in this DIP Commitment Letter and the DIP Term Sheet or on the terms set forth in the definitive credit agreement and upon such assignment and assumption by the assignee of all obligations of such Lender in respect of the portion of the Commitment so assigned on the terms set forth in this DIP Commitment Letter or on the terms set forth in the definitive credit agreement, such Lender will be relieved and novated hereunder from its obligations with respect to such portion of the Commitment.

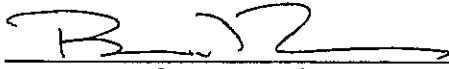
This DIP Commitment Letter and the attached exhibits and annexes set forth the entire understanding of the parties hereto as to the scope of the Commitment and the obligations of the Lenders hereunder. This DIP Commitment Letter supersedes all prior understandings and proposals, whether written or oral, between any of the Lenders and you relating to any debtor-in-possession financing or the transactions contemplated hereby.

This DIP Commitment Letter has been and is made solely for the benefit of the parties signatory hereto and to a Joinder Agreement, and the Indemnified Persons, and nothing in this DIP Commitment Letter, expressed or implied, is intended to confer or does confer on any other person or entity any rights or remedies under or by reason of this DIP Commitment Letter or the agreements of the parties contained herein.

If you are in agreement with the foregoing, kindly sign and return to us the enclosed copy of this DIP Commitment Letter.

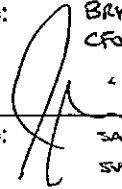
Very truly yours,

BROOKFIELD ASSET MANAGEMENT INC.

By: 

Name: BRIAN LAWSON

Title: CFO

By: 

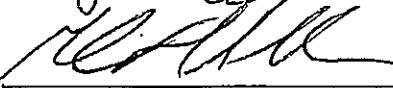
Name: SACHIN SHAH

Title: SVP

Accepted and agreed to as of the
date first above written:

FRASER PAPERS INC.

By: 
Name: J. PETER GORDON
Title: CEO

By: 
Name: GLEN McMILLAN
Title: CFO

Fraser Papers Inc.

DIP Facility Term Sheet

All capitalized terms used herein but not defined herein shall have the meanings set forth in Exhibit A hereto.

Borrower: Fraser Papers Inc. (the "**Borrower**"), as a debtor-in-possession in proceedings (the "**CCAA Proceedings**") commenced in the Superior Court of Ontario (the "**Cdn Court**") under the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**").

Guarantors: All of Borrower's existing and subsequently organized or acquired subsidiaries (collectively, the "**Guarantors**", and together with the Borrower, the "**Credit Parties**" or the "**Debtors**") will guarantee (the "**Guarantees**") all obligations of the Borrower under the DIP Facility (as defined below) on a joint and several basis.

The Borrower and the Guarantors will serve in such capacities as debtors-in-possession under Chapter 15 of the Bankruptcy Code in jointly administered cases ("**US Proceedings**", and together with the CCAA Proceeding, the "**Proceedings**") in the U.S. Court for the District of Delaware (the "**US Court**", and together with the Cdn Court, the "**Courts**"), and as debtor companies under the CCAA in the CCAA Proceedings in the Cdn Court.

Purpose/Use of Proceeds: The proceeds of any drawdown under the DIP Facility will be used (i) to pay transaction costs, fees and expenses which are incurred in connection with the DIP Facility, (ii) for working capital, and (iii) for other general corporate purposes (including the payment of process costs and, in the US Proceedings, adequate protection, but excluding the repayment of pre-petition indebtedness, except as allowed by the CCAA Order).

Administrative Agent and Collateral Agent:

Brookfield Asset Management Inc. or an affiliate (in such capacity, the "**Administrative Agent**").

Lenders:

Brookfield Asset Management Inc. ("**Brookfield**") and/or any of its affiliates and managed funds or other vehicles (collectively, the "**Initial Lenders**"), together with any other

lenders (provided that such other lenders are reasonably acceptable to Brookfield and, prior to an Event of Default, to the Borrower) (each, a “**Lender**” and, collectively, the “**Lenders**”), and provided that the only Lender, if any, in respect of the GNB Tranche shall be Her Majesty the Queen in Right of the Province of New Brunswick, as Represented by the Minister of Business New Brunswick (“**GNB**”).

Amount:

Senior secured super-priority debtor-in-possession revolving loan financing (the “**DIP Facility**”) in the following two tranches:

Primary Tranche: US\$15 million as may be subsequently increased as described in “Increase” below. Notwithstanding the foregoing, if either the US TRO Order or the US Preliminary Injunction Order shall limit the amount of Primary Tranche under the DIP Facility to a lesser amount than the Primary Commitment, the maximum amount available for drawdown under the Primary Tranche shall be such lesser amount until such limitation is removed by the US Court.

GNB Tranche: Up to US\$7 million, to be provided, if at all, exclusively by GNB (the “**GNB Commitment**”).

Primary Commitment:

Brookfield is committed to providing, through the Initial Lenders, the full amount of the Primary Tranche as set out in “Amount” above (other than any Increase). A portion of the amount of the Primary Commitment may be syndicated by the Initial Lenders to one or more other lenders reasonably acceptable to the Borrower (provided that following an Event of Default consultation with the Borrower shall not be required).

Availability:

Draws on the DIP Facility under the Primary Tranche may be made on a revolving basis on or after the Closing Date and prior to (i) the Maturity Date, or (ii) any default or Event of Default, up to the amount of the Primary Commitment, and provided that if \$5 million or more in loans are outstanding under the Primary Tranche, the Borrower shall only be permitted to further draw under the Primary Tranche if it is not able to make any further draws under the CIT Facility.

Draws on the GNB Tranche shall be made on or after the date GNB joins the DIP Facility pursuant to documentation satisfactory to the Administrative Agent, shall be subject to such conditions and such availability as may be agreed between GNB and the Borrower (and reasonably satisfactory to the Required

Lenders other than GNB), and shall be used solely to finance the Debtors' Plaster Rock facility in New Brunswick.

Increase:

Following entry of the Recognition Order (as defined below) or such earlier date as the parties may mutually agree, on or before the Maturity Date, and provided no default or Event of Default is then continuing, the Borrower will have the right, but not the obligation, to request an increase to the Primary Commitment under the Primary Tranche to an aggregate principal amount not to exceed US\$5 million, *provided* that any such increase shall be subject to the satisfaction of conditions precedent to be agreed, and which shall include but not be limited to approval of the Courts, any required consents of other creditors, additional upfront/commitment fees, adjustments to pricing and financial covenants if required by the Required Lenders (as defined below), satisfactory completion of due diligence by the Administrative Agent and the Required Lenders, in their sole discretion, with the sufficiency of the Collateral to secure both the initial Primary Commitment and any such increase. Such increased Primary Commitment will be provided by existing Lenders or other persons who become Lenders in connection therewith; *provided* that no existing Lender will be obligated to provide any such increased portion of the DIP Facility without its approval at its sole discretion.

Maturity:

The earliest (the "Maturity Date") of: (i) the 3rd day following the date of the filing of the chapter 15 petitions in the US Proceedings (the "Petition Date") if the US TRO Order has not been issued, (ii) the 10th day following the Petition Date if the US Preliminary Injunction Order has not been issued, (iii) the 25th day following the Petition Date if the Recognition Order has not been issued, (iv) six months after the Closing Date if a plan of reorganization acceptable to the Required Lenders in their sole discretion has not been submitted to the Cdn Court, (v) nine months after the Closing Date if an approval order in form and substance satisfactory to the Required Lenders approving a plan of reorganization acceptable to the Required Lenders in their sole discretion has not been entered by the Cdn Court, (vi) 12 months following the Closing Date, (vii) the effective date of the plan of reorganization of the Debtors or the emergence of the Debtors from bankruptcy and/or insolvency proceeding, and (viii) the acceleration of the loans and termination of the commitments under the DIP Facility.

Closing Date:

The date on which all conditions precedent to drawdown on the DIP Facility have been satisfied or waived.

Amortization: None.

Interest Rate: All principal amounts outstanding under the DIP Facility will bear interest, at the Borrower's option absent the occurrence or continuance of a default or Event of Default, as follows:

- (i) at the Base Rate (which shall in no event be less than 3.00%) plus 1.75% *per annum*; or
- (ii) at the LIBO Rate (which shall in no event be less than 3.00%) plus 1.75% *per annum*.

As used herein, the terms "Base Rate" and "LIBO Rate" will have meanings customary and appropriate for debtor-in-possession financings and the basis for calculating accrued interest and the interest periods for loans bearing interest at the LIBO Rate will be customary and appropriate for debtor-in-possession financings. Upon the occurrence and during the continuance of an Event of Default (as defined below), the obligations under the DIP Facility will accrue interest at a rate equal to the rate on loans bearing interest at the rate determined by reference to clause (i) above plus an additional two percentage points (2.00%) *per annum* and will be payable on demand.

Interest Payments: (i) monthly in arrears for loans bearing interest with reference to the Base Rate, (ii) on the last day of selected interest periods (which will be one, two and three months) for loans bearing interest with reference to the LIBO Rate (and at the end of every month), and (iii) upon prepayment, in each case payable in arrears and computed on the basis of a 360-day year with respect to loans bearing the LIBO Rate and 365/366 day year with respect to loans bearing interest with reference to the Base Rate. Each interest rate which is calculated hereunder on any basis other than the actual number of days in a calendar year (the "deemed interest period") is, for the purposes of the *Interest Act* (Canada), equivalent to a yearly rate calculated by dividing such interest rate by the number of days in the deemed interest period, then multiplying such result by the actual number of days in the calendar year (365 or 366).

Funding Protection: Customary for debtor-in-possession financings, including breakage costs, gross-up for withholding, compensation for increased costs and compliance with capital adequacy and other regulatory restrictions.

Primary Commitment,

**Structuring
Fees and Expenses:**

The Borrower shall pay fees (the "**Primary Commitment Fees**") to each Initial Lender making a Primary Commitment hereunder, as compensation for the making of such Initial Lender's Primary Commitment, in an amount equal to 1.00% of such Initial Lender's Primary Commitment under the Primary Tranche, earned and payable to such Initial Lender upon the execution and delivery by such Initial Lender and the Borrower of the commitment letter to which this term sheet is attached. The Primary Commitment Fees are non-refundable once paid.

The Borrower shall pay fees (the "**Structuring Fees**") to each Initial Lender making a Primary Commitment, as compensation for the making of such Primary Commitment, in an amount equal to 1.00% of such Initial Lender's Primary Commitment under the Primary Tranche, earned and payable to such Initial Lender on the Closing Date. The Structuring Fees are non-refundable once paid.

In addition, the Borrower shall pay fees (the "**Closing Fees**") to each Initial Lender making a Primary Commitment, as compensation for the making of such Primary Commitment, in an amount equal to 1.75% of such Initial Lender's Primary Commitment under the Primary Tranche, earned and payable to such Initial Lender on the Closing Date. The Closing Fees are non-refundable once paid.

The Borrower shall pay fees (the "**Sponsor Upfront Fees**") to each Initial Lender making a Primary Commitment, as compensation for making of such Primary Commitment, in an amount equal to 0.656% of such Initial Lender's Primary Commitment under the Primary Tranche, earned and payable to such Initial Lender upon the execution and delivery by such Initial Lender and the Borrower of the commitment letter to which this term sheet is attached. The Sponsor Upfront Fees are non-refundable once paid.

The Borrower shall pay standby fees (the "**Standby Fees**") to each Lender making a Primary Commitment on the unused portion of such Primary Commitment. The standby fee will be calculated daily at the rate of 1.00% per annum and will be payable quarterly in arrears on the first Business Day of the following quarter.

The Borrower shall pay all professional and advisory fees and expenses (including legal fees and expenses) of the Lenders related to the DIP Facility. To the extent such amounts are

unpaid, such amounts will be deemed to be a draw under the DIP Facility.

Exit Fees:

The Borrower shall pay fees (the "Exit Fees") to each Lender in an amount equal to 1.00% of its Primary Commitment under the Primary Tranche, earned on the Closing Date and payable to such Lender upon the earlier of (i) the Maturity Date and (ii) repayment in full of the Primary Tranche. The Exit Fees shall be non-refundable once paid.

Voluntary Prepayments:

The DIP Facility may be prepaid in whole or in part without premium or penalty except as provided under "Exit Fees" above; *provided* that loans bearing interest with reference to the LIBO Rate are prepayable only on the last day of the related interest period unless the Borrower pays any related breakage costs in accordance with the "Funding Protection" section above.

Mandatory Prepayments:

The following mandatory prepayments of the DIP Facility are required:

1. Asset Sales: Subject to exceptions to be agreed upon, and subject to the obligation to prepay the CIT Facility with the proceeds of sales of assets on which the CIT Facility lenders hold a prior-ranking lien; no later than the third business day following the date of receipt by any Debtor, prepayments in an amount equal to 100% of the cash proceeds (net of taxes payable in respect thereof, the repayment of any indebtedness secured by such assets and reasonable transaction-related expenses determined acceptable by the Required Lenders in their reasonable discretion) of the sale or other disposition of any property or assets of any Debtor (including their equity interests in any other Debtor), other than cash proceeds of (i) sales or other dispositions of inventory in the ordinary course of business and (ii) sales or other dispositions of equipment in the ordinary course of business to the extent such proceeds are used within the earlier of (i) the Maturity Date and (ii) 90 days following the date of receipt, to acquire replacement equipment.
2. Insurance Proceeds: No later than the third business day following the date of receipt by any Debtor, prepayments in an amount equal to 100% of the insurance and condemnation cash proceeds (net of reasonable transaction-related expenses determined acceptable by the Required Lenders in their reasonable discretion) received on account of any loss of or damage to any property or

assets of any Debtor (and subject to the obligation to prepay the CIT Facility with the proceeds of insurance in respect of property or assets on which the CIT Facility lenders hold a prior-ranking lien) to the extent such proceeds are not used or contractually committed to be used within the earlier of (i) the Maturity Date and (ii) 90 days following the date of receipt to repair, restore or replace the property or assets so lost or damaged.

3. Incurrence of Indebtedness: No later than the first business day following the date of receipt by any Debtor, and subject to the obligation to use such proceeds to prepay the CIT Facility, prepayments in an amount equal to 100% of the net cash proceeds received from the incurrence of indebtedness for borrowed money by any Debtor in excess of a threshold to be agreed, other than indebtedness under the CIT DIP Portion.

All mandatory prepayments will be applied, without penalty or premium (except for breakage costs, if any, and the Exit Fee, if applicable), to the prepayment of the DIP Facility and may not be reborrowed, unless otherwise agreed by the Required Lenders in their sole discretion.

Security and Claims:

The DIP Facility and each Guarantee will be secured by valid, enforceable and perfected super-priority security interests in (i) all assets, including without limitation, all personal, real and mixed property, of the Borrower and the Guarantors, (ii) 100% of the capital stock held by the Borrower and the Guarantors in each subsidiary, and (iii) all intercompany debt payable to the Borrower or the Guarantors (collectively, the "Collateral").

The DIP Facility and each Guarantee will have superpriority claims and will be secured by valid and enforceable super-priority security interests in all assets of the Borrower and the Guarantors, subject only to (i) the Existing CIT Portion, which shall rank senior to the DIP Facility in respect of the assets of the Borrower and Guarantors currently securing the Existing CIT Facility (the "Existing CIT Collateral"), (ii) the CIT DIP Portion, which shall rank senior to the DIP Facility in respect of all assets of the Borrower and the Guarantors (the "CIT DIP Collateral"), and provided further that notwithstanding the above, CIT DIP Collateral shall secure both the Existing CIT Portion and the CIT DIP Portion up to the amount of the CIT Maximum Amount, and (iii) the Carve-Out described below. Intercreditor arrangements (which may comprise either an order of the Courts or an agreement, so long as such arrangement is satisfactory to the Initial

Lenders in their sole discretion) shall be in effect between the DIP Facility secured parties and the CIT Facility secured parties providing for the lien subordination described in this paragraph (the "Intercreditor Arrangements").

The Administrative Agent's and Lenders' claims and security interests in the Collateral will be granted in the Cdn Order and the US Order and shall be subject to the Carve-Out. Other than pursuant to the Cdn Order and the US Order, the terms of (i) the CIT Facility and any agreements, instruments or documents issued pursuant thereto (including the documentation governing the Existing CIT Collateral and the CIT DIP Collateral), or (ii) the CIBC Facility and any agreements, instruments or documents issued pursuant thereto, shall not be amended without the prior written consent of the Required Lenders, acting reasonably in the case of the CIT Facility and in their sole discretion in the case of the CIBC Facility.

Permitted Payments:

The following payments will be permitted during bankruptcy: (i) payment of all current monthly accrued and unpaid interest at the non-default rate under the CIT Facility and the DIP Facility; (ii) current payment pursuant to the terms of the Cdn Order and the US Order (as applicable) of all reasonable legal fees and expenses incurred by the administrative agent under the CIT Facility and the DIP Facility; (iii) all claims subject to the Carve-Out; (iv) for the period from the Closing Date to the date that is six months following the Closing Date, the payment by the Debtors of retiree benefits in the ordinary course and consistent with past practice in an aggregate amount during such period of up to US\$1.8, (v) payment of any amount required to be paid by the Cdn Order or the US Order, (vi) current monthly cash payment of all accrued but unpaid interest at the non-default rate under the CIBC Facility, (vii) payment of any amount permitted, but not required, to be paid under the Cdn Order or the US Order, to the extent such payment is provided for in an approved Budget, as provided for herein, and provided no default or Event of Default is then continuing.

Carve-Out:

All payments and security in respect of claims subject to the CCAA Administrative Charge as such term is described in the Cdn Order.

Representations and Warranties:

Usual and customary for debtor-in-possession financings of this type (including certain customary and appropriate limitations and exceptions) with due regard to current market conditions, in each case relating to the Debtors and satisfactory to the Initial Lenders in their reasonable discretion.

Affirmative Covenants: Usual and customary for debtor-in-possession financings of this type with due regard to current market conditions, in each case relating to the Debtors and satisfactory to the Initial Lenders in their reasonable discretion, including, without limitation, delivery of financial statements and other reports (including simultaneously providing copies of reports and other presentations relating to (i) any Proceeding, (ii) the Debtors, in each case when provided to any other Person); provision of notices of litigation, defaults and unmatured defaults and other information (including pleadings, motions, applications and other documents filed with the Courts or distributed to any stakeholder representative appointed in the Proceedings); maintenance of existence; payment of post-petition taxes and claims; maintenance of properties; maintenance of insurance; cooperation with syndication efforts; books and records; inspections subject to reasonable frequencies to be agreed upon; lender calls or meetings; material compliance with laws; environmental matters; additional collateral and guarantors; cash management acceptable to the Initial Lenders; and further assurances. In addition to the foregoing, the Borrower shall comply with all covenants set forth on Exhibit B attached hereto.

Negative Covenants: Usual and customary for debtor-in-possession financings of this type (including certain customary and appropriate limitations and exceptions) with due regard to current market conditions, in each case relating to the Debtors and satisfactory to the Required Lenders in their reasonable discretion, including, without limitation, limitations on (i) incurrence and repayment of indebtedness, (ii) liens, (iii) negative pledges, (iv) restricted payments, (v) investments (including restrictions on intercompany investments/indebtedness to affiliates of the Debtors that are not also Debtors), (vi) equity issuances, (vii) dispositions (including dispositions of equity interests in subsidiaries), (viii) acquisitions, (ix) fundamental changes, (x) transactions with affiliates, (xi) engaging in new businesses, (xii) modifications to organizational documents and other material indebtedness, (xiii) sales and lease-backs, (xiv) permitted activities of Borrower, (xv) changes to fiscal year and material accounting changes, including deconsolidation, and (xvi) capital expenditures. The negative covenants shall not restrict (except prior to the issuance of the US Order) (a) the flow of funds between the Debtors and (b) transactions among the Debtors that are in the ordinary course of business, consistent with past practice and on an arms-length basis or which consist of the payment of selling, general and administrative costs and the allocation of customer orders, in each case in the ordinary course of business and in accordance with past practice, and (c) any other

transactions that are pre-approved by the Required Lenders in their sole discretion.

Financial Reporting:

Financial reporting shall be provided for Borrower and all of its subsidiaries on a consolidated basis, and shall include: (i) annual audited financial statements, (ii) quarterly internally prepared financial statements, (iii) monthly internally prepared financial statements, (iv) a weekly updated Budget (as defined in Annex 1) satisfactory to the Required Lenders for the next succeeding 13-week period, as well as a reconciliation to prior Budgets, and (v) other reporting as reasonably requested by the Required Lenders.

Financial Covenants:

Financial covenants shall include: (i) minimum consolidated EBITDA (calculated on an last-twelve-months basis), (ii) senior secured leverage ratio, (iii) fixed charge coverage ratio and (iv) maximum capital expenditures, in each case with levels to be mutually agreed upon. In addition, (i) the Required Lenders shall have the right to approve (in their sole discretion) the Budget at the commencement of the first week of each calendar month and in advance of each submission of the Budget to any Court, and (ii) any proposed variance to, or derogation from, from the Budget shall require prior written approval by the Required Lenders in their sole discretion.

Events of Default:

Usual and customary for debtor-in-possession financings of this type with due regard to current market conditions, in each case relating to the Debtors and satisfactory to the Required Lenders in their reasonable discretion. Without limiting the foregoing, the Events of Default shall include (i) a customary change of control provision which shall include, among other things, specified management changes (subject to reasonably satisfactory replacements), (ii) any variance in excess of 15% from the most recently approved Budget, (iii) other than the US Proceedings, the commencement (whether voluntary or involuntary) of any proceedings or any case under any chapter of the Bankruptcy Code, or any insolvency proceedings under State or Federal laws, by or in respect of any of the Debtors, except with the prior written consent of the Required Lenders in their sole discretion, (iv) the entry of an order dismissing the Proceedings or the appointment of a receiver, interim receiver, trustee in bankruptcy or similar official or the making of a Canadian bankruptcy order against the Credit Parties, (v) any order of any of the Courts is made, varied, or vacated or otherwise entered the effect of which would be materially prejudicial to the interest of the Lenders, (vi) any payment in respect of retiree benefits is made beyond the time period, or in excess of the amount, provided for under "Permitted Payments" above, (vii) any non-compliance or breach of any term

or covenant in the DIP Facility, (viii) US TRO Order not having been issued within 3 days of the Petition Date, (ix) the US Preliminary Injunction Order not having been issued within 10 days of the Petition Date, or (x) the Recognition Order not having been issued within 25 days of the Petition Date.

**Conditions Precedent to
Initial Drawdown:**

The several obligations of the Lenders to make, or cause one of their respective affiliates to make, the initial loans under the Primary Tranche will be subject to the closing conditions listed on Annex 1 attached hereto. In addition, the Administrative Agent and Initial Lenders shall have received a signed copy of (i) the Cdn Order and the US TRO Order, each in form and substance satisfactory to the Required Lenders in their sole discretion, and each authorizing and approving the CIT DIP Portion and the DIP Facility, the granting of the superpriority claims and senior secured liens referred to in the "Security" section above, which orders shall be in full force and effect at all times and shall not have been vacated, reversed or stayed without prior written consent of the Required Lenders in their sole discretion or modified or amended without the prior written consent of the Required Lenders in their sole discretion.

**Conditions Precedent to
Subsequent Drawdown:**

The several obligations of the Lenders to continue to make loans available under the Primary Tranche shall be subject to (i) the Borrower being in compliance in all respects with the Cdn Order and the US Order; (ii) no default or Event of Default shall then be existing in respect of the DIP Facility or the CIT DIP Portion of the CIT Facility or would be caused by the making of such drawdown; (iii) the Maturity Date not having occurred; no material adverse change having occurred since the date of the issuance of the Cdn Order; and (v) all representations and warranties provided for in this term sheet and the commitment letter to which this term sheet is attached, or, if applicable, any replacement term sheet or definitive commitment letter, being true and correct in all material respects on the date of any such drawdown as if made on such date, except such representations and warranties specified to be made as of a specific date.

**Assignments and
Participations:**

The Lenders may assign all or any part of their respective loans or commitments under the Primary Tranche to any of their affiliates or managed funds or other vehicles or one or more assignees which are acceptable to the Administrative Agent and, prior to an Event of Default, the Debtors, each such consent not to be unreasonably withheld or delayed. GNB shall not be permitted to assign its

loans or commitments under the GNB Tranche without the consent of the Required Lenders (not including GNB) Upon such assignment, such affiliate or assignee will be a Lender for all purposes under the DIP Facility; *provided* that assignments made to affiliates and managed funds or other vehicles of any Lender, or to other existing Lenders, will not be subject to the above described consent requirements. A US\$3,500 processing fee will be payable to the Administrative Agent by any assignee in connection with any such assignment (other than any assignments made to affiliates and managed funds or other vehicles of any Lender, or to other existing Lenders.) The Lenders also have the right to sell participations, subject to customary limitations on voting rights acceptable to the Required Lenders in their sole discretion, in their respective loans or commitments under the Primary Tranche.

Required Lenders:

Amendments and waivers under the DIP Facility require the approval of (A) for amendments and waivers affecting both the Primary Tranche and the GNB Tranche, (i) Lenders holding more than 50% of sum of the Primary Commitment and the GNB Commitment, and (ii) for so long as Brookfield, together with any of its affiliates and managed vehicles, hold not less than 20% of the Primary Commitments, Brookfield, (B) for amendments and waivers affecting only the Primary Tranche, (i) Lenders holding more than 50% of the Primary Commitment, and (ii) for so long as Brookfield, together with any of its affiliates and managed vehicles, hold not less than 20% of the Primary Commitments, Brookfield, and (C) for amendments and waivers affecting only the GNB Tranche, GNB and the Administrative Agent, (in each case, collectively, the "Required Lenders"), provided that in addition thereto, the consent of each affected Lender shall be required with respect to (i) increases in the Primary Commitment of such Lender, (ii) waivers, reductions or postponements of scheduled payment of principal, interest or fees payable to such Lender, (iii) extensions of final maturity of the loans or Primary Commitments of such Lender, (iv) modifications to this paragraph or the definition of "Required Lenders" herein, and (v) releases of all or substantially all of the value of the Guarantees or all or a material portion of the Collateral.

**Taxes, Expense
Reimbursement,
Indemnification and
Judgment Currency:**

Usual and customary for debtor-in-possession financings of this type with due regard to current market conditions, in each case satisfactory to the Required Lenders in their sole discretion.

**Governing Law and
Jurisdiction:**

The Debtors, the Lenders and other parties hereto submit to the exclusive jurisdiction and venue of (a) the Cdn Court and (b) to the extent applicable, the US Court (except to the extent the Administrative Agent requires submission to any other jurisdiction in connection with the enforcement of any judgment). In the event that the Courts do not have or do not exercise jurisdiction, the Debtors, the Lenders and other parties hereto submit to the exclusive jurisdiction and venue in any court of competent jurisdiction in the Province of Ontario. The Debtors, the Lenders and other parties hereto waive any right to trial by jury. Ontario law governs the DIP Facility.

Counsel to the Lenders: Torys LLP.

Annex 1

Conditions Precedent to Initial Funding

1. The Cdn Order shall have been entered and shall not have been reversed, modified, amended, stayed or vacated, in the case of any amendment or modification, without the prior written consent of the Initial Lenders (which consent shall be in the Initial Lenders' sole discretion).
2. The US TRO Order shall have been issued and shall not have been reversed, modified, amended, stayed or vacated, in the case of any amendment or modification, without the prior written consent of the Initial Lenders (which consent shall be in the Initial Lenders' sole discretion).
3. The Debtors shall be in compliance with both the Cdn Order and the US TRO Order.
3. Execution by the Borrower and the other Credit Parties of a definitive credit agreement or a detailed term sheet reflecting the terms and conditions set forth herein, as determined by the Initial Lenders, acceptable to the Initial Lenders in their sole discretion.
4. The Administrative Agent and Initial Lender shall have received evidence, pursuant to the Cdn Order and the US TRO Order or otherwise satisfactory to it, that Borrower and the other Credit Parties have created in favor of Administrative Agent, for the benefit of Lenders, valid, enforceable and perfected Liens on the Collateral in accordance with the "Security" section above.
5. All of the "first day orders" including the Cdn Order entered by the Cdn Court and the US TRO Order in the US Court at the time of the commencement of the Proceedings, related orders, and motions and other documents to be filed with and submitted to the Cdn Court and the US Court in connection with the DIP Facility shall be satisfactory in form and substance to the Initial Lenders in their sole discretion.
6. The Administrative Agent and Initial Lenders shall have received and approved a detailed weekly operations and cash flow bankruptcy budget for the 13-week period from the commencement of the Proceedings, prepared by the Credit Parties and in form and substance acceptable to the Required Lenders in their sole discretion (the "Budget").
7. No examiner with increased powers to operate the Debtors' material businesses or trustee, receiver, interim receiver or receiver and manager shall have been appointed with respect to any or all of the Debtors or their respective properties.
8. The Borrower and the CIT DIP Portion lenders shall have entered into a term sheet for the CIT DIP Portion satisfactory to the Initial Lenders in their sole discretion.
9. The Borrower and Brookfield shall have mutually agreed to terminate any further commitment of Brookfield to make any Future Purchases, as defined in, and pursuant to, the Paper Supply Agreement (as defined below), which agreement shall specify that the

Borrower shall continue to fulfill its obligations under the Paper Supply Agreement in respect of inventory purchased by Brookfield prior to the date of such agreement and any receivables owing to Brookfield in respect of inventory purchased thereunder.

Exhibit A

Definitions

“CCAA DIP Lenders’ Charge” shall mean the charge granted in favour of the Lenders by the Cdn Court under the Cdn Order in accordance with the terms and conditions of this DIP Facility Term Sheet.

“Cdn Order” shall mean the issued and entered order of the Cdn Court in the CCAA Proceeding containing customary provisions, inter alia, declaring that the Borrower and the Guarantors are proper debtor companies under the CCAA, providing all customary stays of proceedings against the debtor companies and their property, authorizing the debtor companies to reorganize, authorizing and approving the DIP Facility and the CIT DIP Portion and granting the CCAA DIP Lenders’ Charge and the CIT Lenders Charge, in such form as is satisfactory to the Lenders in their sole discretion (including, for greater certainty, confirmation that Brookfield, in respect of its claims and interest pursuant to the Amended and Restated Guarantee and Reimbursement Agreement dated as of September 22, 2008 made by the Debtors in favour of Brookfield and the liens in favour of Brookfield relating thereto, is an “unaffected creditor”), as such order may be amended, varied, modified or restated from time to time with the prior written consent of the Required Lenders in their sole discretion.

“CIBC Facility” means the revolving credit facility dated as of September 22, 2008 made among the Borrower, Canadian Imperial Bank of Commerce and the other parties thereto.

“CIT DIP Maximum” shall mean US\$25,000,000.

“CIT DIP Portion” shall mean a senior secured super-priority debtor-in-possession revolving loan financing provided by the lenders under the Existing CIT Facility of up to the CIT DIP Maximum (and subject to the Excess Availability, as defined in the Existing CIT Facility).

“CIT Facility” shall mean the Existing CIT Facility as amended by the Cdn Order and the US Order to provide for, among other things, the CIT Existing Portion and the CIT DIP Portion.

“CIT Lenders Charge” shall mean the charge granted in favour of the lenders in respect of the CIT DIP Portion by the Cdn Court under the Cdn Order in accordance the terms and conditions of the term sheet for the CIT DIP Portion.

“Existing CIT Facility” shall mean the Borrower’s existing revolving credit facility with CIT Business Credit Canada Inc. and others dated as of May 5, 2008 (as amended).

“Existing CIT Portion” shall mean the principal amount outstanding under the Existing CIT Facility as of the date the CCAA Proceedings are filed in the Cdn Court (being approximately \$55,000,000).

“Recognition Order” shall mean the order by the US Court recognizing the CCAA Proceedings as foreign main proceedings, recognizing the CCAA Order and granting (i) if the US TRO Order

or US Preliminary Injunction Order has limited the amount of the DIP Facility, authority to the Borrowers and Guarantors to borrow the remainder of the financing under the DIP Facility and superiority liens and claims securing such borrowings and (ii) relief under Chapter 15 of the US Bankruptcy Code, in form and substance satisfactory to the Required Lenders in their sole and absolute discretion, within 25 days of the Closing Date.

"Paper Supply Agreement" shall mean the Paper Supply Agreement dated as of January 29, 2009 between Brookfield and the Borrower.

"US Preliminary Injunction Order" shall mean the order in the US Court, in form and substance satisfactory to the Required Lenders in their sole and absolute discretion, granting (i) the continued authorization to borrow under the DIP Facility, and (ii) an extension of the stay.

"US TRO Order" shall mean the order in the US Court, in form and substance satisfactory to the Required Lenders in their sole and absolute discretion, granting emergency authority to the Borrowers and Guarantors to borrow under the DIP Facility and granting the Lenders superiority liens and claims securing such borrowings, and authorizing the stay of proceedings and actions against the Borrower and Guarantors.

"US Order" shall mean, (i) until the issuance of the US Preliminary Injunction Order, the US TRO Order, (ii) after issuance of the US Preliminary Injunction Order but prior to the Issuance of the Recognition Order, collectively, the US TRO Order and the US Preliminary Injunction Order, and (iii) after the issuance of the Recognition Order, collectively, the US TRO Order, the US Preliminary Injunction Order and the Recognition Order.

Exhibit B**Additional Covenants**

1. On the same day the Cdn Order is entered, the Borrower shall make motions in the US Court for the US TRO Order, the US Preliminary Injunction Order and the Recognition Order.
2. The Debtors shall remain at all times in compliance with the Cdn Order and the US Order and each of the Cdn Order and the US Order shall not have be reversed, modified, amended, stayed or vacated without the prior written consent of the Required Lenders in their sole discretion.
3. Within 45 days following the Closing Date, the Credit Parties shall execute and deliver a definitive credit agreement and the Intercreditor Agreement (if not required by the Initial Lenders at closing). If requested by the Required Lenders, the Credit Parties shall as soon as practicable following such request (and in any event within 30 days following such request) execute and deliver Guarantees, security agreements, pledge agreements, real property mortgages (and related title insurance and surveys), opinions of counsel and other related definitive documentation, in all cases acceptable to the Lenders in their sole discretion.
4. Within 10 days following the Closing Date, the Administrative Agent shall receive a certificate from Borrower' insurance broker or other evidence satisfactory to it that all insurance required to be maintained is in full force and effect, together with endorsements naming Administrative Agent, for the benefit of Lenders, as additional insured and loss payee thereunder.
5. At any time during the term of the DIP Facility, upon the request of the Required Lenders the Debtor will appoint (and thereafter, upon the request of the Required Lenders, at any time and from time to time, replace) a Chief Restructuring Officer of Debtors selected by the Borrower and acceptable to the Required Lenders in their sole discretion. The cost of any such Restructuring Officer shall be borne solely by the Debtors.
6. The Credit Parties shall provide prompt written notice to the Initial Lender in reasonable detail prior to (i) any purchase offer that any Credit Party or a subsidiary may receive with respect to any material asset, (ii) any plan or proposal to sell or otherwise dispose of any material asset of the Credit Parties or their material subsidiaries, and (iii) any plan or proposal for the issuance of indebtedness by any Credit Party or any subsidiary thereof, and, in each case, at the request of the Initial Lender, additional details with respect to any such offer, plan or proposal, to the extent not prohibited by bona fide confidentiality requirements.
7. The Debtors may not make payments to the following without the prior written approval of the Required Lenders (including such approval by way of approval of any Budget):
 - (a) any payments, including without limitation, payments of benefits, termination pay or severance pay, to non-active employees except as specifically permitted herein in respect of retiree benefits;

(b) payments to any pension plan administrator for past service or special payments (but, for greater certainty, current service contributions for active employees are permitted); and

(c) payment of municipal taxes for arrears owing as of the date of entry of the Cdn Order.

8. The Borrower shall continue to fulfill its obligations under the Paper Supply Agreement in respect of inventory purchased by Brookfield prior to the date of entry of the Cdn Order and any receivables owing to Brookfield in respect of inventory purchased by Brookfield thereunder.

EXHIBIT “L
TO BE PROVIDED

Exhibit “M”

EXHIBIT "M"

SALE OF PAPER INVENTORY TO BROOKFIELD ASSET MANAGEMENT AND PAPER SUPPLY AGREEMENT

TERM SHEET

(all figures are in U.S. Dollars)

Purchaser:	Brookfield Paper LLC or another designated affiliate of Brookfield Asset Management Inc. ("Brookfield").
Seller:	Fraser Papers Limited ("Fraser").
Purchased Assets:	Finished goods inventory of Fraser as more fully described in Appendix A to this term sheet ("Existing Inventories"). All future finished goods inventories manufactured by Fraser (each a "Product" and, collectively, the "Products") of the type described in Appendix A shipped to those locations (each a "Location" and, collectively, the "Locations") described in Appendix A with the ultimate destination to those customers (each a "Customer" and, collectively, the "Customers") described in Appendix A or such other finished goods inventories manufactured by Fraser as Brookfield and Fraser may agree from time to time ("Future Purchases"). All Future Purchases shall be tracked, at all times, as inventory of Brookfield.
Consideration - Existing Inventories:	Cash of \$11,744,872.34 to purchase Existing Inventories, payable in cash on closing.
Consideration - Future Purchases:	Consideration for Future Purchases shall be equal to the gross selling price agreed to with the Customers at the time the order is accepted minus early payment discounts offered to the Customer (the "Price") minus an allowance for warehouse costs and freight costs from Brookfield's warehouse to the Customer (the "Freight Allowance") minus a commission owing to Brookfield of 3.5% of the Net Price (the "Commission"). The Commission represents a merchant fee payable to Brookfield consistent with Fraser's commercial practices with other paper merchants. The Price minus the Freight Allowance shall be referred to as the "Net Price".
Freight:	All freight and Brookfield warehousing to be arranged by Fraser. All freight from the Mills to Brookfield's warehouse to be paid by Fraser. All Brookfield warehousing costs and freight from the Brookfield warehouse to the customer to be paid by Brookfield. All freight recoveries from the Customers in excess of Brookfield warehousing costs will be on account of Fraser.
Title:	All goods are shipped FOB mill (Madawaska or Gorham (each a "Mill") as the case may be) with title transferring to Brookfield at the time of shipping from the Mill.
Payment terms:	All payments for Future Purchases are due 2 business days from the date of shipment from the Mill.

SALE OF PAPER INVENTORY TO BROOKFIELD ASSET MANAGEMENT AND
PAPER SUPPLY AGREEMENT

TERM SHEET

(all figures are in U.S. Dollars)

Services provided by Fraser: Fraser agrees to provide the following services ("Fraser Services") related to the Existing Inventories and all Future Purchases:

- Sales and sales support services;
- Transportation services;
- Technical support for all Customer concerns, complaints and quality issues;
- Cash application and activities;
- Invoicing and collection activities (to be settled daily); and
- Customer service.

Quality Claims: Fraser shall manage and retain responsibility for all quality claims by the Customers, except to the extent such claim is as a direct result of the direct actions of Brookfield.

Other Terms: Except as described herein, Brookfield agrees to be bound by Fraser's standard terms and conditions ("Standard Terms") as attached as Appendix B.

Term: 6 months, ending July 31, 2009.

Termination: The commitment to make Future Purchases can be terminated by Brookfield on 30 days written notice.

All Existing Inventories plus unpaid Future Purchases made prior to termination shall remain the property of Brookfield as of the end of the Term or at the date of termination, as the case may be.

Other Provisions: Subject to Board approvals.

DATED as of January 29, 2009.

BROOKFIELD PAPER LLC

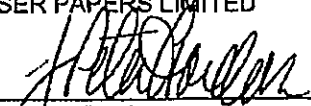
By:


Sachin Shah
Director

Accepted and agreed as of January 29, 2009.

FRASER PAPERS LIMITED

By:


Peter Gordon
Chairman and President

By:


Glen McMillan
Secretary

**SALE OF PAPER INVENTORY TO BROOKFIELD ASSET MANAGEMENT AND
PAPER SUPPLY AGREEMENT**

TERM SHEET

(all figures are in U.S. Dollars)

APPENDIX A

Customer	Grade	Location	Tons	Value
Technicote Inc.	SC Release	Pomona, CA, Dayton, OH and Chicago, IL	1,597	\$ 1,670,235
Technicote Inc.	Thermal Transfer	Pomona, CA, Dayton, OH and Chicago, IL	58	69,624
Graphic Paper Inc.	FP Opaque	Dayton, NJ, Chicago, IL and Mansfield, MA	526	610,441
Graphic Paper Inc.	Frontier Opaque	Dayton, NJ, Chicago, IL and Mansfield, MA	1,476	1,510,380
Green Bay Packaging Inc.	SC Release	Bangor, ME and Fond du lac, WI	546	608,932
Kanzaki Specialty Paper Inc.	Thermal Precoat	Bangor, ME	2,244	2,396,637
Menasha Corporation	Bladepak	Fond du lac, WI	530	862,594
RBC Ministries	Fraprint 68	Kalamazoo, MI	368	341,962
Burrows Paper Corporation	Bladepak	Cincinnati, OH	310	492,925
Unisource	Litho Label	Fond du lac, WI	366	341,785
Xpedx	Frontier Opaque	Dayton, NJ, Chicago, IL, Kalamazo, MI and Langhorne, PA	998	1,143,644
Exopack LLC	Bladepak	Pomona, CA, Des Moines, IA, Dayton, OH and Spartanburg, SC	1,512	2,264,042
TOTAL			10,531	\$12,313,201

Sale of Paper Inventory to Brookfield Asset Management and Paper Supply Agreement

Term Sheet

(All figures are in U.S. Dollars)

APPENDIX B

FRASER PAPERS LIMITED PRODUCT SALES GENERAL TERMS AND CONDITIONS

(rev. 10/31/08)

1. **GENERAL TERMS AND CONDITIONS INCORPORATED IN THE AGREEMENT.** The general terms and conditions set forth herein (the "General Conditions") together with the separate document setting forth, among other things, the agreement date, reference number, product, quality, quantity, parties, term, price, delivery location, period, measurement and payment terms (the "Special Provisions") shall constitute the agreement between the parties (the "Agreement"). In the event of any inconsistency between the Special Provisions and the General Conditions, the Special Provisions will prevail.

2. **PRICE CHANGES, PAYMENT TERMS AND TAXES.** Fraser will provide to Buyer written notice prior to any price increase or decrease. Payment by wire transfer shall be made to Seller's account so that immediately available funds are received not later than the due date specified on the invoice or, if no due date is specified, thirty (30) days after the date of the invoice. Any payments not made by wire transfer shall be made by Buyer seven (7) days earlier than the due dates specified in the preceding sentence. Payment shall be made to the bank account specified by Seller in immediately available funds in U.S. Dollars unless expressly stated otherwise. Payments due on Saturdays or U.S. bank holidays (other than Mondays) shall be made on the preceding business day; payments due on Sundays or Monday bank holidays shall be made on the following business day. Any payment made beyond the due date specified on the invoice may be charged a late payment fee, as interest and not a penalty or item of liquidated damages, at the rate of 1.5% per month prorated for partial months, but not to exceed the maximum rate allowed by law. If the Special Provisions expressly provide for a discount for payment on or prior to the due date for payment, such discount shall only be extended to Buyer if Fraser has received immediately available funds in Fraser's account on or prior to the date specified for such early payment. Unless expressly set forth in the Special Provisions, no discount is provided for early payment. Buyer shall pay all applicable federal, state and local taxes, duties, imposts, assessments, fees, tariffs or other governmental charges (collectively "Taxes") that directly or indirectly, now or hereinafter, may be levied or assessed or otherwise applied to or imposed by any government or instrumentality or subdivision thereof, on the sale, purchase, use, transportation, delivery, inspection or handling of the product (whether paper or any other product) to be sold by Fraser under the Agreement and specified in the Special Provisions (the "Product"), other than Taxes based on the net income of the relevant Fraser entity. In the event that Fraser is required by law to pay any of said Taxes, Buyer shall reimburse Fraser for all such payments. Any new tax, license, inspection or other fee (other than income tax) levied after the date of the Agreement by any government authority upon the transactions provided for in the Agreement shall be borne by Buyer, whether paid directly to the government authority or by reimbursement to Fraser.

3. **FINANCIAL RESPONSIBILITY.** If Buyer fails to pay Fraser all amounts owed when due, or if Fraser, at any time and for any reason, should deem the credit or financial responsibility of Buyer to be impaired, unsatisfactory or unacceptable, Fraser, at its option, may require Buyer to pay cash prior to any future deliveries of Product or may require Buyer to post an irrevocable letter of credit or other security reasonably required by Fraser and may suspend all further deliveries of Product until such security is received. If (a) any requested security is not received within the time reasonably specified by Fraser, or (b) Buyer fails to provide Fraser such other adequate assurance of future performance reasonably requested by Fraser, or (c) any past due indebtedness is not paid in full within five (5) days of a written default notice to Buyer, then Fraser shall have the right to (1) immediately terminate the Agreement, (2) offset and recoup any amounts owing thereunder against any payments or deliveries due to Buyer under any agreement between the parties, and (3) exercise any other remedies allowed under the Agreement, applicable law or equity.

4. **TITLE AND RISK OF LOSS.** Title and risk of loss shall pass to Buyer when Product is loaded for transport to Buyer or with respect to consigned inventory not yet invoiced, on the sixth (60th) day after Product is placed in a warehouse for Buyer. The Buyer must purchase and pay for all inventory after sixty (60) days.

5. **FORCE MAJEURE.** If, by reason of fire, flood, strike, accident, transportation shortages or interruption, embargo, shortages of labor, materials or energy, war, acts of God, governmental regulation, or other causes beyond the reasonable control of a party, including, but not limited to, those of a similar character affecting a supplier providing materials to Fraser or a transporter shipping goods for Fraser (each an "Event of Force Majeure"), Fraser is unable to deliver the quantity or quality of Product specified in the Agreement or otherwise, Buyer is unable to receive the quantity of Product contracted for or Fraser or Buyer is prevented from the performance of any of its obligations under the Agreement, the Product deliverable hereunder during the period of any such disability shall be eliminated from the Agreement and the party affected by the Event of Force Majeure shall be excused from its performance hereunder to the extent caused by such Event of Force Majeure; provided that if by reason of any Event of Force Majeure affecting Fraser, the deliveries to any customer are curtailed, Fraser, at its option may prorate among all its customers for like grades of product, its deliveries of such grades during the period of the continuation of the Event of Force Majeure, and in the event of such proration, the quantity of Product not delivered by reason of such proration shall be eliminated from the Agreement. Upon cessation of the Event of Force Majeure, performance hereof shall be resumed, but such failure or delay shall not operate to extend the term of the Agreement nor obligate either party to make up deliveries or receipts, as the case may be. Neither party hereto shall be required to settle strikes, differences with workers or government claims by according to any demands when, in the discretion of the party whose performance is affected by an Event of Force Majeure, it would be inadvisable to accede to such demands.

6. **TERMINATION.** The Agreement may be terminated, immediately by either party (i) if the other party becomes insolvent, is dissolved or liquidated, makes a general assignment for the benefit of its creditors, files or has filed against it a petition in bankruptcy, or has a receiver appointed for a substantial part of its assets or (ii) upon personal dishonesty, willful misconduct, willful violation of any law, rule or regulation of the other party. If either party materially breaches any provision of this Agreement and such breach continues for more than thirty (30) days after the breaching party has received written notice of the breach from the non-breaching party, the non-breaching party shall have the right to terminate the Agreement on five (5) days prior written notice to the other party. Fraser shall have the right to terminate the Agreement immediately upon Buyer's receipt from Fraser of a notice of termination from Fraser to the effect that any paper machine, paper mill or other Fraser facility used to produce the Product has been or will be shutdown (temporarily or permanently) for any length of time exceeding thirty (30) days or that such paper mill or other Fraser facility will be acquired by any entity that is not affiliated with Fraser. The termination of the Agreement shall not affect a party's right to recover any amounts due under the Agreement.

7. **WEIGHT AND VARIATIONS IN CALIPER.** Paper will be billed at the actual gross weight of rolls, including paper, wrapper and non-returnable cores, unless Fraser and Buyer have agreed in writing that Paper will be billed on an area basis. Variations in caliper (PPI) will be considered acceptable as defined by industry standards.

8. **CLAIMS.** Buyer shall make every effort to accept any delivery of Product and mitigate any damages to Product delivered. Any claim concerning the quantity or quality of Product delivered shall be

irrevocably waived unless made by written notice delivered promptly upon discovery of such defect, but in no event later than the earlier of (i) fifteen (15) days after the initial date of use of all or any portion of the Product and (ii) twelve (12) months after the date of original shipment. Buyer shall notify Fraser of any defect in Product for which Fraser is expressly liable under the terms of the Agreement and for which Buyer claims entitlement to a credit against the purchase price. Such Product shall be segregated and held for inspection by Fraser. No claims shall be allowed after Product has been used or converted or, in the case of paper, such paper is cut, ruled, printed or otherwise processed except as approved by Fraser. Buyer shall not be entitled to set off against payments any amount owing or alleged to be owing from Fraser to Buyer, including for adjustments, set-offs or claims under the Agreement without the express written consent of Fraser.

9. WARRANTY; DISCLAIMER OF WARRANTIES; SPECIFICATIONS. Fraser warrants that Product will conform to the specifications as agreed to by Fraser and Buyer in the Agreement, within tolerances as permitted by the customs of the trade, and warrants title to the Product. EXCEPT AS EXPRESSLY HEREIN SET FORTH, FRASER MAKES NO WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND (INCLUDING ANY ARISING FROM COURSE OF DEALING, OR USAGE OR CUSTOMS OF TRADE) WITH RESPECT TO THE PRODUCT, AND DISCLAIMS ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE. Specifications and changes thereto shall only be part of the Agreement when in writing in the Special Provisions or through a written amendment executed by the parties in accordance with the second sentence of Section 16.

10. DAMAGES. Buyer's exclusive remedy for any and all losses or damages resulting from the sales of Product under the Agreement, including, but not limited to, any allegations of breach of warranty, breach of contract, negligence or strict liability, shall be limited to either the return of the purchase price or the replacement of the particular Product for which a claim is made and proved, at Fraser's option. Notwithstanding any provision of the Agreement to the contrary, neither party shall be liable to the other for cost of cover, special, indirect, incidental, exemplary, punitive or consequential damages (including, but not limited to, lost profits). If Buyer continues production after Buyer becomes aware of a possible defect, Buyer shall be responsible for use of the Product (including finished paper) and any related costs unless Buyer has provided Fraser with written notice of the alleged defect and Fraser, in its sole discretion, has determined the terms, if any, under which Buyer may continue production using the Product.

11. RETURN OF DAMAGED PRODUCT. Fraser shall have sole discretion to determine whether Buyer returns defective Product to Fraser or otherwise disposes of the Product. Buyer shall not return allegedly defective Product to Fraser or dispose of it without specific written instructions from a Fraser representative. Fraser will be responsible for the costs of return by the mode of transportation designated by Fraser or the reasonable disposal costs, as the case may be. If the Product is a total loss, the loss and any adjustment offered by Fraser shall be reduced by the salvage value of the Product.

12. EXTENDED PRESS TIME. Fraser, in its sole discretion, may determine that a defect in Product results in a Buyer printing problem on press and requires extra press time and may decide to compensate Buyer for additional press time. Such additional press time shall be paid at straight hourly rates pre-approved by Fraser.

13. CONFIDENTIALITY. Except to the extent required by applicable law or regulation, Fraser shall not disclose the terms and conditions of the Agreement or any proprietary, non-public or confidential information obtained from Fraser (collectively, the "Confidential Information") to any person, firm or corporation other than to its own employees and advisors on a need-to-know basis, and then the disclosure shall be of only so much information as is required to carry out the purpose of the Agreement. Buyer shall be responsible for any breaches of confidentiality by the persons to whom it has disclosed any Confidential Information.

14. ASSIGNMENT. Neither party may assign the Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld; provided, however, either party may assign the Agreement to an entity that owns or acquires or has common ownership of substantially all of the stock or assets of such party or as a pledge or security interest to any financial

institution, bank, trust company, association or other business or governmental entity. Any assignment without the required prior written consent shall be null and void. A party making any assignment shall promptly notify the other party of such assignment, regardless of whether consent is required, and no assignment or pledge of any Agreement right, interest or obligation shall be binding upon a party until after such party has received notice of assignment, and each party shall remain fully liable for all obligations incurred prior to such notice.

15. MISCELLANEOUS. If any provision of the Agreement is held invalid or unenforceable, the provision shall be deemed modified only to the extent necessary to render it valid or enforceable, the Agreement, as the case may be, and the Agreement shall be enforced and construed as if the provision had been included in the Agreement as modified or as if it had not been included, as the case may be. The remaining provisions of the Agreement shall remain in full force and effect and shall not be affected by the legal, invalid, or unenforceable provision or by its severance from the Agreement and in lieu of such illegal, invalid or unenforceable provision, the parties shall negotiate promptly and in good faith a provision which shall become part of the Agreement through an amendment, a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible. Nothing in the Agreement shall create, or be deemed to create, a partnership, joint venture or similar relationship between the parties. The Agreement shall not constitute a basis for third party beneficiary claims or any other claims of any person other than the parties hereto.

16. ENTIRETY OF AGREEMENT; MODIFICATION AND WAIVER. The Agreement shall constitute the entire understanding of the parties relating to the sale of Product and shall supersede all prior written or oral proposals, negotiations, and representations of the parties regarding such sale. No amendment, modification, waiver or alteration of the Agreement shall be binding unless reflected either by a written instrument signed by the parties. Waiver by either party of performance of any Agreement rights or obligations or of any default by the other party shall not operate as a waiver of any other right, obligation or default or as a future waiver of the same right or obligation or a waiver of any future default.

17. GOVERNING LAW, DISPUTES. The Agreement shall be governed by and construed in accordance with the laws of the State of Maine without reference to the choice of law rules of such state. Both parties hereby irrevocably and unconditionally consent to submit to the exclusive jurisdiction of the courts of such State and of the United States of America located in such State for any action, suit, or proceeding arising out of or relating to the Agreement and hereby irrevocably and unconditionally waive the right to a trial by jury in any such matter.

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c.C-36 AS AMENDED

AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO

FRASER PAPERS INC., FPS CANADA INC., FRASER PAPERS HOLDINGS INC., FRASER TIMBER LTD.,

FRASER PAPERS LIMITED and FRASER N.H. LLC (collectively, the "Applicants")

Applicant(s)

Court File No.:

ONTARIO
**SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceedings commenced at Toronto

AFFIDAVIT OF J. PETER GORDON
(Sworn June 17, 2009)

ThorntonGroutFinnigan LLP

Barristers and Solicitors

Suite 3200, P.O. Box 329

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Toronto, Ontario

M5K 1K7

Michael Barrack (LSUC# 21941W)

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Tel: 416-304-1616

Fax: 416-304-1313

Lawyers for the Applicants.

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TAB 3

Court File No. _____

**ONTARIO SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED**

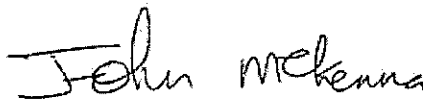
**AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF
FRASER PAPERS INC., FPS CANADA INC., FRASER PAPERS HOLDINGS INC.,
FRASER TIMPBER LTD., FRASER PAPERS LIMITED,
AND FRASER N.H. LLC**

CONSENT

PRICEWATERHOUSECOOPERS INC. hereby consents to its
appointment as Monitor in the above-mentioned proceeding.

DATED at Toronto as of 16th day of June 2009

PRICEWATERHOUSECOOPERS INC.

A handwritten signature in black ink that reads "John McKenna". The signature is written in a cursive, flowing style.

Per: John McKenna
Senior Vice President

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c.C-36 AS AMENDED

AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO

FRASER PAPERS INC., FPS CANADA INC., FRASER PAPERS HOLDINGS INC., FRASER TIMBER LTD.,

FRASER PAPERS LIMITED and FRASER N.H. LLC (collectively, the "Applicants")

Applicant(s)

Court File No.:

ONTARIO
**SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceedings commenced at Toronto

CONSENT

ThorntonGroutFinnigan LLP

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Lawyers for the Applicants.

265.

TAB 4

Court File No.

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE MR.	)	THURSDAY, THE 18 th DAY
	)	
JUSTICE MORAWETZ	)	OF JUNE, 2009

IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c.C-36 AS AMENDED

AND IN THE MATTER OF A PROPOSED PLAN OF
COMPROMISE OR ARRANGEMENT WITH RESPECT TO
FRASER PAPERS INC., FPS CANADA INC., FRASER
PAPERS HOLDINGS INC., FRASER TIMBER LTD., FRASER
PAPERS LIMITED and FRASER N.H. LLC (collectively, the
"Applicants")

INITIAL ORDER

THIS APPLICATION, made by the Applicants pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of J. Peter Gordon sworn June 17, 2009 and the Exhibits thereto (the "Gordon Affidavit"), the Pre-Filing Report of PricewaterhouseCoopers Inc. ("PwC"), in its capacity as proposed Monitor of the Applicants, and on hearing the submissions of counsel for the Applicants, CIT Business Credit Canada Inc. ("CIT"), Brookfield Asset Management Inc. ("Brookfield"), the Province of New Brunswick, Canadian Imperial Bank of Commerce, and counsel for the directors of Fraser Papers Inc., no one appearing for any other parties, and on reading the Consent of PwC to act as the Monitor, and upon being satisfied that this Court has jurisdiction to receive the Application in respect of the Applicants pursuant to

sections 3 and 9(1) of the CCAA and upon being satisfied that the Applicants' center of main interest is within the jurisdiction of this Court:

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Application and the Application Record is hereby abridged so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

2. THIS COURT ORDERS AND DECLARES that each of the Applicants is a company to which the CCAA applies.

PLAN OF ARRANGEMENT

3. THIS COURT ORDERS that the Applicants shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "Plan") between, *inter alia*, the Applicants and one or more classes of their respective secured and/or unsecured creditors as they deem appropriate.

POSSESSION OF PROPERTY AND OPERATIONS

4. THIS COURT ORDERS that the Applicants shall remain in possession and control of their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "Property"). Subject to further Order of this Court, the Applicants shall continue to carry on business in a manner consistent with the preservation of their business (the "Business") and Property. The Applicants shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "Assistants") currently retained or employed by each of them, with liberty to retain such further Assistants as they deem reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

5. THIS COURT ORDERS that the Applicants shall be required to continue to utilize the centralized cash management system, including blocked account and lockbox arrangements,

currently in place as described in the Gordon Affidavit (the "Cash Management System") and that any Person (as defined below) providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the Applicants of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, shall be entitled to provide the Cash Management System without any liability in respect thereof to any Person other than the Applicants, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System.

6. THIS COURT ORDERS that the Applicants shall be entitled and are hereby directed to continue, in the ordinary course of business as carried on immediately prior to the date hereof, all existing arrangements under a Paper Supply Agreement dated January 29, 2009 as described in the Gordon Affidavit, unless otherwise agreed to by the parties thereto.

PAYMENTS

7. THIS COURT ORDERS that the Applicants shall pay the following expenses:

- (a) all outstanding and future wages, salaries, vacation pay, and expenses that may be owing at any time to employees who continue to provide services on or after the date of this Order (the "Active Employees"), in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements, whether incurred prior to, on or after the date of this Order;
- (b) all existing and future employee health, dental, life insurance, short and long term disability and related benefits (collectively, the "Group Benefits") that may be owing at any time to Active Employees, in each case incurred in the ordinary course of business and consistent with existing policies and arrangements or such amended policies and arrangements as are necessary or desirable to deliver the

existing Group Benefits, whether incurred prior to, on or after the date of this Order;

- (c) all normal cost contribution obligations (the "Current Contributions") in respect of current service provided by Active Employees of any funded pension plans maintained by the Applicants (collectively, the "Pension Plans") whether such Current Contributions were incurred prior to, on or after the date of this Order, but for greater certainty not including any past service contributions or special payments;
- (d) payment for goods or services actually supplied to the Applicants on or after the date of this Order; and
- (e) the fees and disbursements of any Assistants retained or employed by the Applicants in respect of these proceedings, at their standard rates and charges, whether incurred prior to, on or after the date of this Order.

8. THIS COURT ORDERS that, except as otherwise provided to the contrary herein, the Applicants shall be entitled but not required to pay all reasonable expenses incurred by the Applicants in carrying on the Business in the ordinary course after this Order and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services;
- (b) all outstanding and future claims, premiums or other amounts payable in respect of workers' compensation programs applicable to the Applicants' employees, whether incurred prior to, on or after the date of this Order, all in the ordinary course of business and in accordance with the terms of any existing insurance or other policies;

- (c) payments on account of existing employee performance incentive programs in respect of Active Employees, whether incurred prior to or after the date of this Order, all in the ordinary course of business as carried on immediately prior to the date hereof;
- (d) with the prior written approval of the Monitor and subject to the terms of the DIP Financing, payments in respect of key employee incentive programs established on or after the date of this Order;
- (e) any amounts payable in respect of Group Benefits in respect of retired employees or other current or former employees who are not Active Employees, whether incurred prior to, on or after the date of this Order, all subject to the terms of the DIP Financing and the Definitive Documents, as defined in this Order;
- (f) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof, any local, state or federal taxation authority in the United States or any other taxation authority, in all cases in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors but: (i) are not attributable to or in respect of the ongoing Business carried on by the Applicants on or after the date of this Order; or (ii) are payable in respect of a period prior to the date of this Order;
- (g) any outstanding amounts payable in respect of (i) customer programs including, *inter alia*, rebates, adjustments, performance and volume discounts and (ii) billing errors, including duplicative invoicing, improper invoicing, duplicative payment, mispricing and various other billing and payment errors, whether incurred prior to, on or after the date of this Order; and
- (h) amounts owing for goods and services actually supplied to the Applicants, or to obtain the release of goods contracted for prior to the date of this Order, in each case with the consent of the Monitor and the DIP Lender, as defined in this Order,

up to the maximum amount of USD\$12,300,000 if, in the opinion of the Applicants, such supplier is critical to the ongoing Business of the Applicants.

9. THIS COURT ORDERS that the Applicants shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any state or federal authority in the United States or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;
- (b) all goods and services or other applicable sales taxes (collectively, "Sales Taxes") required to be remitted by the Applicants in connection with the sale of goods and services by the Applicants, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order, and
- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof, or any local, state or federal authority in the United States, in all cases in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are: (i) entitled at law to be paid in priority to claims of secured creditors; (ii) attributable to or in respect of the ongoing Business carried on by the Applicants; and (iii) payable in respect of the period commencing on or after the date of this Order, or on terms as may be agreed to between such Applicant and the applicable taxation authority.

10. THIS COURT ORDERS that until such time as the Applicants repudiate a real property lease in accordance with paragraph 17(d) of this Order, the Applicants shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to

the landlord under the lease) or as otherwise may be negotiated by the Applicants from time to time ("Rent"), for the period commencing from and including the date of this Order, bi-weekly, in advance (but not in arrears).

11. THIS COURT ORDERS that, except as specifically permitted herein, the Applicants are hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicants to any of their creditors as of this date, save and except in respect of payments referred to in paragraph 12 below and other existing secured creditors as may be specifically provided for in the DIP Term Sheet, as defined in this Order; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of its Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

12. THIS COURT ORDERS that, notwithstanding any other provision of this Order:

- (a) the Applicants are authorized to enter into an amendment to the credit agreement dated as of May 2, 2008, between Fraser Papers Inc. and CIT Business Credit Canada Inc., as agent for itself and the lenders from time to time under such credit agreement, as amended (the "CIT Credit Agreement"), substantially on the terms of the term sheet between the Applicants and CIT (the "CIT Term Sheet") attached to the Gordon Affidavit;
- (b) the Applicants are hereby authorized to borrow, repay and reborrow under and in accordance with the terms of the CIT Term Sheet and the CIT Credit Agreement, and are authorized and directed to pay and perform all of their indebtedness, interest, fees, liabilities and obligations to CIT under and pursuant to the CIT Term Sheet and the CIT Credit Agreement as and when the same become due and are to be performed; and
- (c) CIT shall be entitled to issue such notices as may be needed to permit it to exercise cash dominion over the lockbox accounts subject to the Existing CIT Security (as defined below).

PENSION PLANS

13. THIS COURT ORDERS that, notwithstanding any other provision of this Order, the Applicants shall not make any past service contributions or special payments to fund any going concern unfunded liability or solvency deficiency of the Pension Plans during the Stay Period (as defined in this Order), pending further Order of this Court.

14. THIS COURT ORDERS that none of the Applicants or their respective officers or directors shall incur any obligation, whether by way of debt, damages for breach of duty, whether statutory, fiduciary, common law or otherwise, or for breach of trust, nor shall any trust be recognized, whether express, implied, constructive, resulting, deemed or otherwise, as a result of the failure of any Person to make any contribution or payments other than Current Contributions during the Stay Period, that they might otherwise have been required to make to any Pension Plans maintained by any of the Applicants.

15. THIS COURT ORDERS that if any claim, lien, charge or trust arises as a result of the failure of any Person to make any contribution or payment (other than Current Contributions in accordance with Sections 81.5 and 81.6 of the *Bankruptcy and Insolvency Act* (the "BIA")) during the Stay Period that such Person might otherwise have become required to make to any Pension Plans but for the stay provided for herein, no such claim, lien, charge or trust shall be recognized in these proceedings or in any subsequent receivership, interim receivership or bankruptcy of any of the Applicants as having priority over the claims of the CCAA Charges as set out in this Order.

16. THIS COURT ORDERS AND DECLARES that nothing in this Order shall be taken to extinguish or compromise the obligations of the Applicants, if any, regarding payments under the Pension Plans.

RESTRUCTURING

17. THIS COURT ORDERS that the Applicants shall, subject to such covenants as may be contained in the Definitive Documents (as hereinafter defined), have the right to:

- (a) permanently or temporarily cease, downsize or shut down any of their Business or operations;

- (b) dispose of redundant or non-material assets not exceeding CDN\$500,000 in any one transaction or CDN\$2,000,000 in the aggregate, subject to paragraph 17(d), if applicable;
- (c) terminate the employment of such of their employees or temporarily lay off such of their employees as appropriate on such terms as may be agreed upon between the Applicant and such employee, or failing such agreement, to deal with the consequences thereof in the Plan;
- (d) in accordance with paragraphs 18 and 19, vacate, abandon or quit any leased premises and/or repudiate any real property lease and any ancillary agreements relating to any leased premises, on not less than seven (7) days' notice in writing to the relevant landlord on such terms as may be agreed upon between the Applicant and such landlord, or failing such agreement, to deal with the consequences thereof in the Plan;
- (e) repudiate such of their arrangements or agreements of any nature whatsoever, whether oral or written, as the Applicants, or any of them, deem appropriate on such terms as may be agreed upon between any one of the Applicants and such counter-parties, or failing such agreement, to deal with the consequences thereof in the Plan; and
- (f) pursue all avenues of refinancing and offers for material parts of the Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing or any sale (except as permitted by subparagraph (a), above),

all of the foregoing to permit the Applicants to proceed with an orderly restructuring of the Business (the "Restructuring").

18. THIS COURT ORDERS that the Applicants shall provide each of the relevant landlords with notice of the Applicants' intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the

landlord disputes the Applicants' entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and such Applicant, or by further Order of this Court upon application by the Applicants on at least two (2) days' notice to such landlord and any such secured creditors. If an Applicant repudiates the lease governing such leased premises in accordance with paragraph 17(d) of this Order, it shall not be required to pay Rent under such lease pending resolution of any such dispute, and the repudiation of the lease shall be without prejudice to the Applicant's claim to the fixtures in dispute.

19. THIS COURT ORDERS that if a lease is repudiated by an Applicant in accordance with paragraph 17(d) of this Order, then (a) during the notice period prior to the effective time of the repudiation, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicant and the Monitor 24 hours' prior written notice, and (b) at the effective time of the repudiation, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Applicant in respect of such lease or leased premises and such landlord shall be entitled to notify the Applicant of the basis on which it is taking possession and to gain possession of and re-lease such leased premises to any third party or parties on such terms as such landlord considers advisable, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

20. THIS COURT ORDERS that, subject to the other provisions of this Order (including the payment of Rent as herein provided) and any further Order of this Court, the Applicants shall be permitted to dispose of any or all of the Property located (or formerly located) at such leased premises without any interference of any kind from landlords (notwithstanding the terms of any leases) and, for greater certainty, the Applicants shall have the right to realize upon the Property and other assets in such manner and at such locations, including leased premises, as they deem suitable or desirable for the purpose of maximizing the proceeds and recovery therefrom.

NO PROCEEDINGS AGAINST THE APPLICANTS OR THE PROPERTY

21. THIS COURT ORDERS that until and including July 17, 2009 or such later date as this Court may order (the "Stay Period"), no claim, grievance, application, action, suit, right or

remedy, proceeding or enforcement process in any court, tribunal or arbitration association (each, a "Proceeding") shall be commenced or continued against or in respect of any of the Applicants or the Monitor, or affecting the Business or the Property, except with the written consent of the Applicants and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of any of the Applicants or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

22. THIS COURT ORDERS that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "Persons" and each being a "Person") against or in respect of the Applicants or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Applicants and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicants to carry on any business which the Applicants are not lawfully entitled to carry on, (ii) exempt the Applicants from compliance with statutory or regulatory provisions relating to health, safety or the environment, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

23. THIS COURT ORDERS that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Applicants, including but not limited to renewal rights in respect of existing insurance policies on the same terms, except with the written consent of the Applicants and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

24. THIS COURT ORDERS that during the Stay Period, all Persons having oral or written agreements with the Applicants or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation, services, utility or other services to the Business or any of the Applicants, are hereby restrained until

further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Applicants, and that the Applicants shall be entitled to the continued use of their current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Applicants in accordance with normal payment practices of the Applicants or such other practices as may be agreed upon by the supplier or service provider and each of the Applicants and the Monitor, or as may be ordered by this Court.

25. THIS COURT ORDERS that, without limiting paragraph 24 hereof, all Persons providing freight services to the Applicants shall deliver all shipments relating to the Applicants or their Business or Property in transit as at the date hereof (the "In Transit Shipments") in accordance with the existing arrangements and delivery instructions with respect to the In Transit Shipments. The Applicants are hereby directed to pay to the applicable freight provider the freight costs associated with the In Transit Shipments, within five (5) business days following delivery of the In Transit Shipments.

NON-DEROGATION OF RIGHTS

26. THIS COURT ORDERS that, notwithstanding anything else contained herein, no creditor of the Applicants shall be under any obligation after the making of this Order to advance or re-advance any monies or otherwise extend any credit to any Applicant. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

27. THIS COURT ORDERS that during the Stay Period, and except as permitted by subsection 11.5(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Applicants with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Applicants whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the Applicants, if one is filed, is sanctioned by this Court or is refused by the creditors of the Applicants or this Court.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

28. THIS COURT ORDERS that the Applicants shall indemnify their directors and officers from all claims, costs, charges and expenses relating to the failure of the Applicants, after the date hereof, to make payments of the nature referred to in subparagraphs 7(a), 9(a), 9(b) and 9(c) of this Order which they sustain or incur by reason of or in relation to their respective capacities as directors and/or officers of the Applicants except to the extent that, with respect to any officer or director, such officer or director has actively participated in the breach of any related fiduciary duties or has been grossly negligent or guilty of wilful misconduct in respect thereto.

29. THIS COURT ORDERS that the directors and officers of the Applicants shall be entitled to the benefit of and are hereby granted a charge (the "Directors' Charge") on the Property, which charge shall not exceed an aggregate amount of USD\$30,000,000, as security for the indemnity provided in paragraph 28 of this Order. The Directors' Charge shall have the priority set out in paragraphs 49 and 51 herein.

30. THIS COURT ORDERS that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Applicants' directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 28 of this Order.

APPOINTMENT OF MONITOR

31. THIS COURT ORDERS that PricewaterhouseCoopers Inc. is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the Property and the Applicants' conduct of the Business with the powers and obligations set out in the CCAA or set forth herein and that the Applicants and their shareholders, officers, directors and Assistants shall advise the Monitor of all material steps taken by the Applicants pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations.

32. THIS COURT ORDERS that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the Applicants' receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, the Restructuring and such other matters as may be relevant to the proceedings herein;
- (c) assist the Applicants, to the extent required by the Applicants, in their dissemination to CIT and the DIP Lender and their counsel of financial and other information as agreed to between the Applicants and CIT or the DIP Lender, as applicable, which may be used in these proceedings, including reporting on a basis to be agreed with CIT and with the DIP Lender;
- (d) assist the Applicants in their preparation of the Applicants' cash flow statements, budgets and any other reporting or information that they may require in relation to the Business or the Property, including any reporting required by CIT or the DIP Lender, which information shall be reviewed with the Monitor and delivered to CIT and its counsel, and to the DIP Lender and its counsel in accordance with any reporting requirements of the DIP Term Sheet or the CIT Term Sheet, or as otherwise agreed to by CIT or the DIP Lender, as applicable;
- (e) advise the Applicants in their development of the Plan and any amendments to the Plan and, to the extent required by the Applicants, in their negotiations with creditors, customers, vendors and other interested Persons;
- (f) assist the Applicants, to the extent required by the Applicants, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;
- (g) assist the Applicants, to the extent required by the Applicants, in dealing with their respective creditors, customers, vendors and other interested Persons;
- (h) assist the Applicants with their financing and restructuring activities to the extent required by the Applicants;

- (i) have full and complete access to the books, records and management, employees and advisors of the Applicants and to the Business and the Property to the extent required to perform its duties arising under this Order;
- (j) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order, including any affiliate of, or person related to, PwC;
- (k) consider, and if deemed advisable by the Monitor, prepare a report and assessment on the Plan; and
- (l) perform such other duties as are required by this Order or by this Court from time to time.

33. THIS COURT ORDERS that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

34. THIS COURT ORDERS that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder, and such similar legislation in any jurisdiction in which the Property may be located (the "Environmental Legislation"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the

Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

35. THIS COURT ORDERS that the Monitor shall provide any creditor of the Applicants, CIT and the DIP Lender with information provided by the Applicants in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicants is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicants may agree.

36. THIS COURT ORDERS that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

37. THIS COURT ORDERS that the Monitor, counsel to the Monitor and all counsel to the Applicants shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Applicants as part of the costs of these proceedings. The Applicants are hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor and counsel for the Applicants on a bi-weekly basis.

38. THIS COURT ORDERS that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

39. THIS COURT ORDERS that the Monitor, counsel to the Monitor and the Applicants' Canadian and U.S. counsel shall be entitled to the benefit of and are hereby granted a charge (the "Administration Charge") on the Property, which charge shall not exceed an aggregate amount of CDN\$750,000, as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, both before and after the making of this Order

in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 49 and 51 hereof.

DIP FINANCING

40. THIS COURT ORDERS that the Applicants are hereby authorized and empowered to obtain and borrow under a credit facility (the "DIP Facility") from Brookfield (the "DIP Lender") in order to finance the Applicants' working capital requirements and other general corporate purposes and capital expenditures, provided that borrowings under such credit facility shall not exceed USD\$22,000,000 unless permitted by further Order of this Court.

41. THIS COURT ORDERS that the DIP Facility shall be substantially on the terms and subject to the conditions set forth in the commitment letter between the Applicants and the DIP Lender dated as of June 17, 2009 (the "DIP Term Sheet") annexed to the Gordon Affidavit, as same may be amended from time to time with the Monitor's written consent.

42. THIS COURT ORDERS AND DECLARES that this Court has been advised of the minority approval requirements of Multilateral Instrument 61-101 "Protection of Minority Security Holders in Special Transactions" and the exemption from such requirements contained in Section 5.7(d) hereof, all as contained in the Gordon Affidavit, and that compliance with the provisions of such Multilateral Instrument is hereby dispensed with.

43. THIS COURT ORDERS that the Applicants are hereby authorized and empowered to execute and deliver such credit agreements, mortgages, charges, hypothecs and security documents, guarantees and other definitive documents (collectively, the "Definitive Documents"), as are contemplated by the DIP Term Sheet or as may be reasonably required by the DIP Lender pursuant to the terms thereof, and the Applicants are hereby authorized and directed to pay and perform all of their indebtedness, interest, fees, liabilities and obligations to the DIP Lender under and pursuant to the DIP Term Sheet and the Definitive Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.

44. THIS COURT ORDERS that the DIP Lender shall be entitled to the benefit of and is hereby granted a charge (the "DIP Lender's Charge") on the Property as security for any and all

obligations of the Applicants under or pursuant to the DIP Facility, the DIP Term Sheet and the Definitive Documents, which charge shall not exceed the aggregate amount owed to the DIP Lender under or pursuant to the DIP Facility, the DIP Term Sheet and the Definitive Documents. The DIP Lender's Charge shall have the priority set out in paragraphs 49 and 51 hereof.

45. THIS COURT ORDERS that CIT shall be entitled to the benefit of and is hereby granted a charge (the "CIT DIP Charge") on the Property in the amount of USD\$24,000,000 to secure amounts outstanding under the CIT Term Sheet and the CIT Credit Agreement as amended pursuant to paragraph 12(a), all as described in the CIT Term Sheet and the CIT Credit Agreement.

46. THIS COURT ORDERS that, notwithstanding any other provision of this Order:

- (a) the DIP Lender and CIT may take such steps from time to time as they may deem necessary or appropriate to file, register, record or perfect the DIP Lender's Charge or the DIP Term Sheet or any of the Definitive Documents, or the CIT DIP Charge;
- (b) upon the occurrence of an event of default under the DIP Term Sheet or Definitive Documents or the DIP Lender's Charge, the DIP Lender, may immediately cease making advances to the Applicants and set off and/or consolidate any amounts owing by the DIP Lender to the Applicants against the obligations of the Applicants to the DIP Lender under the DIP Term Sheet, the Definitive Documents or the DIP Lender's Charge and make demand, accelerate payment and give other notices and, upon five (5) days notice to the Applicants and the Monitor, may exercise any and all of its other rights and remedies against the Applicants or the Property under or pursuant to the DIP Term Sheet, Definitive Documents and the DIP Lender's Charge, including without limitation, to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Applicants and for the appointment of a trustee in bankruptcy of the Applicants, and upon the occurrence of an event of default under the terms of the DIP Term Sheet or the Definitive Documents, the DIP Lender shall be entitled to seize and retain proceeds from the

sale of the Property and the cash flow of the Applicants to repay amounts owing to the DIP Lender in accordance with the Definitive Documents and the DIP Lender's Charge, but subject to the priorities as set out in paragraphs 49 and 51 of this Order;

- (c) upon the occurrence of an event of default under the CIT Term Sheet, the CIT Credit Agreement or the CIT DIP Charge, CIT, may immediately cease making advances to the Applicants and set off and/or consolidate any amounts owing by CIT to the Applicants against the obligations of the Applicants to CIT under the CIT Term Sheet, the CIT Credit Agreement, the related documents or the CIT DIP Charge and make demand, accelerate payment and give other notices and, upon five (5) days notice to the Applicants and the Monitor, may exercise any and all of its other rights and remedies against the Applicants or the Property including under or pursuant to the CIT Term Sheet, the CIT Credit Agreement and the CIT DIP Charge, including without limitation, to apply to this Court for the appointment of a receiver, receiver and manager and manager or interim receiver, or for a bankruptcy order against the Applicant and for the appointment of a trustee in bankruptcy of the Applicants, and upon the occurrence of an event of default under the terms of the CIT Term Sheet, the CIT Credit Agreement or the CIT DIP Charge, CIT shall be entitled to seize and retain proceeds from the sale of the Property and the cash flow of the Applicants to repay amounts owing to CIT in accordance with the CIT Term Sheet, the CIT Credit Agreement and the CIT DIP Charge, but subject to the priorities as set out in paragraphs 49 and 51 of this Order; and
- (d) the foregoing rights and remedies of the DIP Lender and CIT shall each be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Applicants or the Property.

47. THIS COURT ORDERS AND DECLARES that CIT and the DIP Lender shall be treated as unaffected in any plan of arrangement or compromise filed by the Applicants under the CCAA, or any proposal filed by the Applicants under the BIA, with respect to any advances

made under the CIT Term Sheet, the CIT Credit Agreement, the DIP Term Sheet or the Definitive Documents and with respect to any claims and rights the DIP Lender may have under or pursuant to the Paper Supply Agreement and the Amended and Restated Guarantee and Reimbursement Agreement dated as of September 22, 2008 made by the Applicants in favour of the DIP Lender and the liens relating thereto.

INTER-COMPANY TRANSACTION CHARGE

48. THIS COURT ORDERS AND DECLARES that each Applicant shall be entitled to and is hereby granted the benefit of a charge (the "Inter-Company Charge") on the Property of each of the other Applicants in an amount equal to but not exceeding:

- (a) in respect of the period from June 1, 2009 to the date of this Order, the costs of all goods and services supplied by one Applicant to another; and
- (b) in respect of the period from and after the date of this Order, (i) the costs of all goods and services supplied by one Applicant to another, and (ii) the net advances actually made by one Applicant to another,

all in accordance with existing cash management and inter-company transaction practises existing as at the date of this Order. The Inter-Company Charge in favour of the Applicants shall have the priority set out in paragraphs 49 and 51 hereof.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

49. THIS COURT ORDERS that the priorities of the Directors' Charge, the Administration Charge, the CIT DIP Charge, the DIP Lender's Charge and the Inter-Company Charge as among them, and as against the existing security held by CIT prior to the issuance of this Order (the "Existing CIT Security"), shall be as follows:

- (a) with respect to all assets charged in favour of CIT under the Existing CIT Security (collectively, the "CIT Collateral"):

First -- Existing CIT Security;

Second -- Administration Charge (to the maximum amount of CDN \$750,000);

Third – CIT DIP Charge;

Fourth – DIP Lender's Charge;

Fifth – Directors' Charge (to the maximum amount of USD\$30,000,000);

Sixth – Inter-Company Charge; and

(b) with respect to the Property of the Applicants other than the CIT Collateral:

First – Administration Charge (to the maximum amount of CDN \$750,000);

Second – CIT DIP Charge;

Third – DIP Lender's Charge;

Fourth – Directors' Charge (to the maximum amount of USD\$30,000,000); and

Fifth – Inter-Company Charge.

50. THIS COURT ORDERS that the filing, registration or perfection of the Directors' Charge, the Administration Charge, the CIT DIP Charge, the DIP Lender's Charge and the Inter-Company Charge (collectively, the "Charges") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

51. THIS COURT ORDERS that each of the Directors' Charge, the Administration Charge, the CIT DIP Charge and the DIP Lender's Charge (all as constituted and defined herein) shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, statutory or otherwise (collectively, "Encumbrances") in favour of any Person other than the Existing CIT Security. In addition, the Inter-Company Charge shall not rank in priority to any Encumbrances existing as of the date hereof in favour of any Person.

52. THIS COURT ORDERS that except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicants shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, the Existing CIT Security or any of the

Charges unless the Applicants also obtain the prior written consent of the Monitor, CIT, the DIP Lender and the beneficiaries of the Directors' Charge and the Administration Charge, or further Order of this Court.

53. THIS COURT ORDERS that the Charges, the DIP Term Sheet and the Definitive Documents, and (with respect to advances made on or after the date hereof) the Existing CIT Security, shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges and/or the DIP Lender and/or CIT thereunder shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "Agreement") which binds any of the Applicants, and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the DIP Term Sheet or the Definitive Documents, nor the CIT Term Sheet or the amendments to the CIT Credit Agreement authorized hereby shall create or be deemed to constitute a breach by the Applicants of any Agreement to which they are a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Applicants entering into the DIP Term Sheet, the creation of the Charges, or the execution, delivery or performance of the Definitive Documents, the CIT Term Sheet or the amendments to the CIT Credit Agreement authorized hereby; and
- (c) the payments made by the Applicants pursuant to this Order, the DIP Term Sheet or the Definitive Documents, the CIT DIP Term Sheet, the CIT Credit Agreement and the granting of the Charges, do not and will not constitute fraudulent

preferences, fraudulent conveyances, oppressive conduct, settlements or other challengeable, voidable or reviewable transactions under any applicable law.

SERVICE AND NOTICE

54. THIS COURT ORDERS that the Monitor shall, within ten (10) business days of the date of entry of this Order, cause a notice to be sent to the Applicants' known creditors, other than employees and creditors to which the Applicants owe less than CDN\$1,000.00, at their addresses as they appear on the Applicants' records, and shall promptly send a copy of this Order (a) to all parties filing a Notice of Appearance in respect of this Application, and (b) to any other interested Person requesting a copy of this Order.

55. THIS COURT ORDERS that the Applicants and the Monitor be at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to the Applicants' creditors or other interested parties at their respective addresses as last shown on the records of the Applicants and that any such service or notice by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

56. THIS COURT ORDERS that the Applicants, the Monitor, and any party who has filed a Notice of Appearance may serve any court materials in these proceedings by e-mailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, in accordance with the E-filing protocol of the Commercial List to the extent practicable, and the Monitor may post a copy of any or all such materials on its website at www.pwc.com/car-fraserpapers

GENERAL

57. THIS COURT ORDERS that the Applicants or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

58. THIS COURT ORDERS that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicants, the Business or the Property.

59. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the Applicants, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicants and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to Fraser Papers Inc. on behalf of the Applicants in any foreign proceeding including a proceeding to be commenced by the Applicants pursuant to Chapter 15 of the United States *Bankruptcy Code*, or to assist the Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

60. THIS COURT ORDERS that each of the Applicants and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.

61. THIS COURT ORDERS that any interested party (including the Applicants and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

62. THIS COURT ORDERS that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard Time on the date of this Order.

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c.C-36 AS AMENDED

AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO
FRASER PAPERS INC., FPS CANADA INC., FRASER PAPERS HOLDINGS INC., FRASER TIMBER LTD.,
FRASER PAPERS LIMITED and FRASER N.H. LLC (collectively, the "Applicants")

Applicant(s)

Court File No.:

ONTARIO
**SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceedings commenced at Toronto

INITIAL ORDER

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Lawyers for the Applicants.

TAB 5

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE MR. MORAWETZ) ~~DAY~~ THURSDAY, THE 18th DAY
)
 JUSTICE ► MORAWETZ) OF ► JUNE, 2009

IN THE MATTER OF THE *COMPANIES'* CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, 36 AS AMENDED

AND IN THE MATTER OF A PROPOSED PLAN OF
COMPROMISE OR ARRANGEMENT OF [APPLICANT'S
NAME] (the "Applicant") WITH RESPECT TO FRASER
PAPERS INC., FPS CANADA INC., FRASER PAPERS
HOLDINGS INC., FRASER TIMBER LTD., FRASER PAPERS
LIMITED and FRASER N.H. LLC (collectively, the "Applicants")

INITIAL ORDER¹
(~~Long Form~~)

THIS APPLICATION, made by the ~~Applicant~~, Applicants pursuant to the *Companies'*
Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "CCAA") was heard this day
at 393330 University Avenue, Toronto, Ontario.

ON READING the affidavit of [NAME] J. Peter Gordon sworn [DATE] June 17, 2009
and the Exhibits thereto (the "Gordon Affidavit"), the Pre-Filing Report of
PricewaterhouseCoopers Inc. ("PwC"), in its capacity as proposed Monitor of the Applicants,

¹ ~~The CLUC Subcommittee has proceeded to draft this Model Order without incorporating specific changes mandated by Bill C-55. When Bill C-55 (or a version thereof) is declared to be in force, the CLUC Subcommittee will update this and other Model Orders to make the necessary changes.~~

and on hearing the submissions of counsel for [NAMES], ~~no one appearing for [NAME]~~ although ~~duly served as appears from the affidavit of service of [NAME] sworn [DATE] and on reading the consent of [MONITOR'S NAME] to act as the Monitor,~~ the Applicants, CIT Business Credit Canada Inc. ("CIT"), Brookfield Asset Management Inc. ("Brookfield"), the Province of New Brunswick, Canadian Imperial Bank of Commerce, and counsel for the directors of Fraser Papers Inc., no one appearing for any other parties, and on reading the Consent of PwC to act as the Monitor, and upon being satisfied that this Court has jurisdiction to receive the Application in respect of the Applicants pursuant to sections 3 and 9(1) of the CCAA and upon being satisfied that the Applicants' center of main interest is within the jurisdiction of this Court:

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Application and the Application Record is hereby abridged so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

2. THIS COURT ORDERS AND DECLARES that each of the ApplicantApplicants is a company to which the CCAA applies.

PLAN OF ARRANGEMENT

3. THIS COURT ORDERS that the ApplicantApplicants shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "Plan") between, *inter alia*, the ApplicantApplicants and one or more classes of ~~its~~their respective secured and/or unsecured creditors as ~~it deems~~they deem appropriate.

POSSESSION OF PROPERTY AND OPERATIONS

4. THIS COURT ORDERS that the ApplicantApplicants shall remain in possession and control of ~~its~~their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "Property"). Subject to further Order of this Court, the ApplicantApplicants shall continue to carry on business in a

manner consistent with the preservation of ~~its~~their business (the "Business") and Property. The ~~Applicant~~Applicants shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "Assistants") currently retained or employed by ~~it~~each of them, with liberty to retain such further Assistants as ~~it deems~~they deem reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

5. ~~[Note: This provision should only be utilized where necessary, in view of the fact that central cash management systems often operate in a manner that consolidates the cash of applicant companies]~~—THIS COURT ORDERS that the ~~Applicant~~Applicants shall be ~~entitled~~required to continue to utilize the ~~central~~centralized cash management system, including blocked account and lockbox arrangements, currently in place as described in the Gordon Affidavit of [NAME] sworn [DATE] or ~~replace it with another substantially similar central cash management system~~-(the "Cash Management System") and that any ~~present or future bank~~Person (as defined below) providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the ~~Applicant~~Applicants of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, shall be entitled to provide the Cash Management System without any liability in respect thereof to any Person—(as ~~hereinafter defined~~) other than the ~~Applicant~~Applicants, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System.

6. THIS COURT ORDERS that the ~~Applicant shall be entitled but not required to~~Applicants shall be entitled and are hereby directed to continue, in the ordinary course of business as carried on immediately prior to the date hereof, all existing arrangements under a Paper Supply Agreement dated January 29, 2009 as described in the Gordon Affidavit, unless otherwise agreed to by the parties thereto.

PAYMENTS

7. THIS COURT ORDERS that the Applicants shall pay the following expenses whether incurred prior to or after this Order:

- (a) all outstanding and future wages, salaries, employee and pension benefits, vacation pay, bonuses and expenses payable that may be owing at any time to employees who continue to provide services on or after the date of this Order (the "Active Employees"), in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements, whether incurred prior to, on or after the date of this Order;
- (b) all existing and future employee health, dental, life insurance, short and long term disability and related benefits (collectively, the "Group Benefits") that may be owing at any time to Active Employees, in each case incurred in the ordinary course of business and consistent with existing policies and arrangements or such amended policies and arrangements as are necessary or desirable to deliver the existing Group Benefits, whether incurred prior to, on or after the date of this Order;
- (c) all normal cost contribution obligations (the "Current Contributions") in respect of current service provided by Active Employees of any funded pension plans maintained by the Applicants (collectively, the "Pension Plans") whether such Current Contributions were incurred prior to, on or after the date of this Order, but for greater certainty not including any past service contributions or special payments;
- (d) payment for goods or services actually supplied to the Applicants on or after the date of this Order; and
- (e) (b) the fees and disbursements of any Assistants retained or employed by the ApplicantApplicants in respect of these proceedings, at their standard rates and charges, whether incurred prior to, on or after the date of this Order.

8. 7. THIS COURT ORDERS that, except as otherwise provided to the contrary herein, the ApplicantApplicants shall be entitled but not required to pay all reasonable expenses incurred by

the ~~Applicant~~Applicants in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services; and
- (b) all outstanding and future claims, premiums or other amounts payable in respect of workers' compensation programs applicable to the Applicants' employees, whether incurred prior to, on or after the date of this Order, all in the ordinary course of business and in accordance with the terms of any existing insurance or other policies;
- (c) payments on account of existing employee performance incentive programs in respect of Active Employees, whether incurred prior to or after the date of this Order, all in the ordinary course of business as carried on immediately prior to the date hereof;
- (d) with the prior written approval of the Monitor and subject to the terms of the DIP Financing, payments in respect of key employee incentive programs established on or after the date of this Order;
- (e) any amounts payable in respect of Group Benefits in respect of retired employees or other current or former employees who are not Active Employees, whether incurred prior to, on or after the date of this Order, all subject to the terms of the DIP Financing and the Definitive Documents, as defined in this Order;
- (f) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof, any local, state or federal taxation authority in the United States or any other taxation authority, in all cases in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors but: (i) are not attributable to or in respect of the ongoing Business

carried on by the Applicants on or after the date of this Order; or (ii) are payable in respect of a period prior to the date of this Order;

(g) any outstanding amounts payable in respect of (i) customer programs including, *inter alia*, rebates, adjustments, performance and volume discounts and (ii) billing errors, including duplicative invoicing, improper invoicing, duplicative payment, mispricing and various other billing and payment errors, whether incurred prior to, on or after the date of this Order; and

(h) ~~(b)~~ payment amounts owing for goods ~~or~~ and services actually supplied to the Applicant following the date of this Order Applicants, or to obtain the release of goods contracted for prior to the date of this Order, in each case with the consent of the Monitor and the DIP Lender, as defined in this Order, up to the maximum amount of USD\$12,300,000 if, in the opinion of the Applicants, such supplier is critical to the ongoing Business of the Applicants.

9. ~~8.~~ THIS COURT ORDERS that the Applicant Applicants shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any state or federal authority in the United States or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;
- (b) all goods and services or other applicable sales taxes (collectively, "Sales Taxes") required to be remitted by the Applicant Applicants in connection with the sale of goods and services by the Applicant Applicants, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order, and

- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof, or any ~~other~~ taxation local, state or federal authority in the United States, in all cases in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are: (i) entitled at law to be paid in priority to claims of secured creditors and which are; (ii) attributable to or in respect of the carrying on of the Business by the Applicant ongoing Business carried on by the Applicants; and (iii) payable in respect of the period commencing on or after the date of this Order, or on terms as may be agreed to between such Applicant and the applicable taxation authority.

10. ~~9.~~ THIS COURT ORDERS that until such time as the ~~Applicant repudiates~~ Applicants repudiate a real property lease in accordance with paragraph ~~{1117(ed)}~~ of this Order, the ~~Applicant~~ Applicants shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated by the ~~Applicant~~ Applicants from time to time ("Rent"), for the period commencing from and including the date of this Order, bi-weekly, in advance (but not in arrears).

11. ~~10.~~ THIS COURT ORDERS that, except as specifically permitted herein, the ~~Applicant~~ Applicants are hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the ~~Applicant~~ Applicants to any of ~~its~~ their creditors as of this date, save and except in respect of payments referred to in paragraph 12 below and other existing secured creditors as may be specifically provided for in the DIP Term Sheet, as defined in this Order; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of its Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

12. THIS COURT ORDERS that, notwithstanding any other provision of this Order:

- (a) the Applicants are authorized to enter into an amendment to the credit agreement dated as of May 2, 2008, between Fraser Papers Inc. and CIT Business Credit Canada Inc., as agent for itself and the lenders from time to time under such credit agreement, as amended (the "CIT Credit Agreement"), substantially on the terms

of the term sheet between the Applicants and CIT (the "CIT Term Sheet") attached to the Gordon Affidavit;

- (b) the Applicants are hereby authorized to borrow, repay and reborrow under and in accordance with the terms of the CIT Term Sheet and the CIT Credit Agreement, and are authorized and directed to pay and perform all of their indebtedness, interest, fees, liabilities and obligations to CIT under and pursuant to the CIT Term Sheet and the CIT Credit Agreement as and when the same become due and are to be performed; and
- (c) CIT shall be entitled to issue such notices as may be needed to permit it to exercise cash dominion over the lockbox accounts subject to the Existing CIT Security (as defined below).

PENSION PLANS

13. THIS COURT ORDERS that, notwithstanding any other provision of this Order, the Applicants shall not make any past service contributions or special payments to fund any going concern unfunded liability or solvency deficiency of the Pension Plans during the Stay Period (as defined in this Order), pending further Order of this Court.

14. THIS COURT ORDERS that none of the Applicants or their respective officers or directors shall incur any obligation, whether by way of debt, damages for breach of duty, whether statutory, fiduciary, common law or otherwise, or for breach of trust, nor shall any trust be recognized, whether express, implied, constructive, resulting, deemed or otherwise, as a result of the failure of any Person to make any contribution or payments other than Current Contributions during the Stay Period, that they might otherwise have been required to make to any Pension Plans maintained by any of the Applicants.

15. THIS COURT ORDERS that if any claim, lien, charge or trust arises as a result of the failure of any Person to make any contribution or payment (other than Current Contributions in accordance with Sections 81.5 and 81.6 of the *Bankruptcy and Insolvency Act* (the "BIA")) during the Stay Period that such Person might otherwise have become required to make to any Pension Plans but for the stay provided for herein, no such claim, lien, charge or trust shall be recognized in these proceedings or in any subsequent receivership, interim receivership or

bankruptcy of any of the Applicants as having priority over the claims of the CCAA Charges as set out in this Order.

16. THIS COURT ORDERS AND DECLARES that nothing in this Order shall be taken to extinguish or compromise the obligations of the Applicants, if any, regarding payments under the Pension Plans.

RESTRUCTURING

17. ~~11.~~ THIS COURT ORDERS that the ~~Applicant~~Applicants shall, subject to such covenants as may be contained in the Definitive Documents (as hereinafter defined), have the right to:

(a) ~~permanently or temporarily cease, downsize or shut down any of their Business or operations;~~

(b) ~~(a) permanently or temporarily cease, downsize or shut down any of its business or operations and to dispose of redundant or non-material assets not exceeding \$►CDN\$500,000 in any one transaction or \$►CDN\$2,000,000 in the aggregate, subject to paragraph {11}17(ed)}, if applicable;~~

(c) ~~(b)-terminate the employment of such of its~~their employees or temporarily lay off such of ~~its~~their employees as it deems appropriate on such terms as may be agreed upon between the Applicant and such employee, or failing such agreement, to deal with the consequences thereof in the Plan;

(d) ~~(e)-in accordance with paragraphs {12}18 and {13},19, vacate, abandon or quit any leased premises and/or repudiate any real property lease and any ancillary agreements relating to any leased premises, on not less than seven (7) days' notice in writing to the relevant landlord on such terms as may be agreed upon between the Applicant and such landlord, or failing such agreement, to deal with the consequences thereof in the Plan;~~

(e) ~~(d)--repudiate such of its~~their arrangements or agreements of any nature whatsoever, whether oral or written, as the ~~Applicant deems~~Applicants, or any of

~~them, deem~~ appropriate on such terms as may be agreed upon between ~~any one of~~ the ~~Applicant~~Applicants and such counter-parties, or failing such agreement, to deal with the consequences thereof in the Plan; and

- (f) ~~(e)~~—pursue all avenues of refinancing and offers for material parts of ~~its~~the Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing or any sale (except as permitted by subparagraph (a), above),

all of the foregoing to permit the ~~Applicant~~Applicants to proceed with an orderly restructuring of the Business (the "Restructuring").

18. ~~12.~~—THIS COURT ORDERS that the ~~Applicant~~Applicants shall provide each of the relevant landlords with notice of the ~~Applicant's~~Applicants' intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the ~~Applicant's~~Applicants' entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and ~~the~~such Applicant, or by further Order of this Court upon application by the ~~Applicant~~Applicants on at least two (2) days' notice to such landlord and any such secured creditors. If ~~the~~an Applicant repudiates the lease governing such leased premises in accordance with paragraph {H17(ed)} of this Order, it shall not be required to pay Rent under such lease pending resolution of any such dispute, and the repudiation of the lease shall be without prejudice to the Applicant's claim to the fixtures in dispute.

19. ~~13.~~—THIS COURT ORDERS that if a lease is repudiated by ~~the~~an Applicant in accordance with paragraph {H17(ed)} of this Order, then (a) during the notice period prior to the effective time of the repudiation, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicant and the Monitor 24 hours' prior written notice, and (b) at the effective time of the repudiation, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Applicant in respect of such lease or

leased premises and such landlord shall be entitled to notify the Applicant of the basis on which it is taking possession and to gain possession of and re-lease such leased premises to any third party or parties on such terms as such landlord considers advisable, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

20. ~~14.~~ THIS COURT ORDERS that, subject to the other provisions of this Order (including the payment of Rent as herein provided) and any further Order of this Court, the ~~Applicant~~Applicants shall be permitted to dispose of any or all of the Property located (or formerly located) at such leased premises without any interference of any kind from landlords (notwithstanding the terms of any leases) and, for greater certainty, the ~~Applicant~~Applicants shall have the right to realize upon the Property and other assets in such manner and at such locations, including leased premises, as ~~it deem~~they deem suitable or desirable for the purpose of maximizing the proceeds and recovery therefrom.

NO PROCEEDINGS AGAINST THE ~~APPLICANT~~APPLICANTS OR THE PROPERTY

21. ~~15.~~ THIS COURT ORDERS that until and including ~~[DATE—MAX. 30 DAYS]~~July 17, 2009 or such later date as this Court may order (the "Stay Period"), no claim, grievance, application, action, suit, right or remedy, proceeding or enforcement process in any court or tribunal or arbitration association (each, a "Proceeding") shall be commenced or continued against or in respect of any of the ApplicantApplicants or the Monitor, or affecting the Business or the Property, except with the written consent of the ~~Applicant~~Applicants and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of any of the ApplicantApplicants or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

22. ~~16.~~ THIS COURT ORDERS that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "Persons" and each being a "Person") against or in respect of the ~~Applicant~~Applicants or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the ~~Applicant~~Applicants and the Monitor, or

leave of this Court, provided that nothing in this Order shall (i) empower the ~~Applicant~~Applicants to carry on any business which the ~~Applicant is~~Applicants are not lawfully entitled to carry on, (ii) exempt the ~~Applicant~~Applicants from compliance with statutory or regulatory provisions relating to health, safety or the environment, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

23. 17.—THIS COURT ORDERS that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the ~~Applicant~~Applicants, including but not limited to renewal rights in respect of existing insurance policies on the same terms, except with the written consent of the ~~Applicant~~Applicants and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

24. 18.—THIS COURT ORDERS that during the Stay Period, all Persons having oral or written agreements with the ~~Applicant~~Applicants or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation, services, utility or other services to the Business or any of the ~~Applicant~~Applicants, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the ~~Applicant~~Applicants, and that the ~~Applicant~~Applicants shall be entitled to the continued use of ~~its~~their current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the ~~Applicant~~Applicants in accordance with normal payment practices of the ~~Applicant~~Applicants or such other practices as may be agreed upon by the supplier or service provider and each of the ~~Applicant~~Applicants and the Monitor, or as may be ordered by this Court.

25. THIS COURT ORDERS that, without limiting paragraph 24 hereof, all Persons providing freight services to the Applicants shall deliver all shipments relating to the Applicants or their Business or Property in transit as at the date hereof (the "In Transit Shipments") in accordance with the existing arrangements and delivery instructions with respect to the In Transit Shipments. The Applicants are hereby directed to pay to the applicable freight provider the freight costs associated with the In Transit Shipments, within five (5) business days following delivery of the In Transit Shipments.

NON-DEROGATION OF RIGHTS

26. 19.—THIS COURT ORDERS that, notwithstanding anything else contained herein, no creditor of the ApplicantApplicants shall be under any obligation after the making of this Order to advance or re-advance any monies or otherwise extend any credit to theany Applicant. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

27. 20.—THIS COURT ORDERS that during the Stay Period, and except as permitted by subsection 11.5(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the ApplicantApplicants with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the ApplicantApplicants whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the ApplicantApplicants, if one is filed, is sanctioned by this Court or is refused by the creditors of the ApplicantApplicants or this Court.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

28. 21.—THIS COURT ORDERS that the ApplicantApplicants shall indemnify its~~their~~ directors and officers from all claims, costs, charges and expenses relating to the failure of the Applicants, after the date hereof, to make payments of the nature referred to in subparagraphs {67(a)}, {89(a)}, {89(b)} and {89(c)} of this Order which they sustain or incur by reason of or in relation to their respective capacities as directors and/or officers of the Applicants except to the

extent that, with respect to any officer or director, such officer or director has actively participated in the breach of any related fiduciary duties or has been grossly negligent or guilty of wilful misconduct in respect thereto.

29. ~~22.~~ THIS COURT ORDERS that the directors and officers of the ~~Applicant~~Applicants shall be entitled to the benefit of and are hereby granted a charge (the "Directors' Charge") on the Property, which charge shall not exceed an aggregate amount of \$~~►~~USD\$30,000,000, as security for the indemnity provided in paragraph ~~{21}~~{28} of this Order. The Directors' Charge shall have the priority set out in paragraphs ~~{39}~~{49} and ~~{41}~~{51} herein.

30. ~~23.~~ THIS COURT ORDERS that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the ~~Applicant's~~Applicants' directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph ~~{21}~~{28} of this Order.

APPOINTMENT OF MONITOR

31. ~~24.~~ THIS COURT ORDERS that ~~{MONITOR'S NAME}~~PricewaterhouseCoopers Inc. is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the Property and the ~~Applicant's~~Applicants' conduct of the Business with the powers and obligations set out in the CCAA or set forth herein and that the ~~Applicant~~Applicants and ~~its~~their shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the ~~Applicant~~Applicants pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations.

32. ~~25.~~ THIS COURT ORDERS that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the ~~Applicant's~~Applicants' receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, the

Restructuring and such other matters as may be relevant to the proceedings herein;

- (c) assist the ~~Applicant~~Applicants, to the extent required by the ~~Applicant~~Applicants, in ~~its~~their dissemination, to CIT and the DIP Lender and its~~their~~ counsel ~~on a~~counsel ~~[TIME INTERVAL] basis~~on a of financial and other information as agreed to between the ~~Applicant~~Applicants and CIT or the DIP Lender, as applicable, which may be used in these proceedings, including reporting on a basis to be agreed with CIT and with the DIP Lender;
- (d) ~~advise~~assist the ~~Applicant~~Applicants in ~~its~~their preparation of the ~~Applicant's~~Applicants' cash flow statements ~~and budgets and any other reporting or information that they may require in relation to the Business or the Property, including any reporting required by CIT or the DIP Lender, which information shall be reviewed with the Monitor and delivered to CIT and its counsel, and to the DIP Lender and its counsel on a periodic basis, but not less than [TIME INTERVAL] in accordance with any reporting requirements of the DIP Term Sheet or the CIT Term Sheet, or as otherwise agreed to by CIT or the DIP Lender, as applicable;~~
- (e) advise the ~~Applicant~~Applicants in ~~its~~their development of the Plan and any amendments to the Plan and, to the extent required by the Applicants, in their negotiations with creditors, customers, vendors and other interested Persons;
- (f) assist the ~~Applicant~~Applicants, to the extent required by the ~~Applicant~~Applicants, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;
- (g) assist the Applicants, to the extent required by the Applicants, in dealing with their respective creditors, customers, vendors and other interested Persons;
- (h) assist the Applicants with their financing and restructuring activities to the extent required by the Applicants;

- (i) ~~(g)~~—have full and complete access to the books, records and management, employees and advisors of the ~~Applicant~~Applicants and to the Business and the Property to the extent required to perform its duties arising under this Order;
- (j) ~~(h)~~—be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order, including any affiliate of, or person related to, PwC;
- (k) ~~(i)~~—consider, and if deemed advisable by the Monitor, prepare a report and assessment on the Plan; and
- (l) ~~(j)~~—perform such other duties as are required by this Order or by this Court from time to time.

33. ~~26.~~—THIS COURT ORDERS that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

34. ~~27.~~—THIS COURT ORDERS that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder, and such similar legislation in any jurisdiction in which the Property may be located (the "Environmental Legislation"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the

Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

35. ~~28.~~ THIS COURT ORDERS ~~that that~~ the Monitor shall provide any creditor of the ~~Applicant~~Applicants, CIT and the DIP Lender with information provided by the ~~Applicant~~Applicants in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the ~~Applicant~~Applicants is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the ~~Applicant~~Applicants may agree.

36. ~~29.~~ THIS COURT ORDERS that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

37. ~~30.~~ THIS COURT ORDERS that the Monitor, counsel to the Monitor and all counsel to the ~~Applicant~~Applicants shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the ~~Applicant~~Applicants as part of the costs of these proceedings. The ~~Applicant is~~Applicants are hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor and counsel for the ~~Applicant~~Applicants on a ~~[TIME INTERVAL]~~ basis and, in addition, the ~~Applicant is hereby authorized to pay to the Monitor,~~ counsel to the Monitor, and counsel to the Applicant, retainers in the amount[s] of \$~~►~~ ~~[, respectively,]~~ to be held by them as security for payment of their respective fees and disbursements outstanding from time to time bi-weekly basis.

38. ~~31.~~ THIS COURT ORDERS that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

39. ~~32.~~ THIS COURT ORDERS that the Monitor, counsel to the Monitor, ~~if any,~~ and the ~~Applicant's~~Applicants' Canadian and U.S. counsel shall be entitled to the benefit of and are hereby granted a charge (the "Administration Charge") on the Property, which charge shall not exceed an aggregate amount of \$~~►,CDN\$750,000,~~ as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs ~~{39}~~49 and ~~{41}~~51 hereof.

DIP FINANCING

40. ~~33.~~ THIS COURT ORDERS that the ~~Applicant is~~Applicants are hereby authorized and empowered to obtain and borrow under a credit facility ~~from [DIP LENDER'S NAME]~~(the "DIP Facility") from Brookfield (the "DIP Lender") in order to finance the ~~Applicant's~~Applicants' working capital requirements and other general corporate purposes and capital expenditures, provided that borrowings under such credit facility shall not exceed \$~~►USD\$22,000,000~~ unless permitted by further Order of this Court.

41. ~~34.~~ THIS COURT ORDERS ~~THAT such credit facility~~that the DIP Facility shall be substantially on the terms and subject to the conditions set forth in the commitment letter between the ~~Applicant~~Applicants and the DIP Lender dated as of ~~[DATE]~~ (the "Commitment Letter"), ~~filed June 17, 2009 (the "DIP Term Sheet") annexed to the Gordon Affidavit, as same may be amended from time to time with the Monitor's written consent.~~

42. ~~35.~~ THIS COURT ORDERS AND DECLARES that the ~~Applicant is~~this Court has been advised of the minority approval requirements of Multilateral Instrument 61-101 "Protection of Minority Security Holders in Special Transactions" and the exemption from such requirements contained in Section 5.7(d) hereof, all as contained in the Gordon Affidavit, and that compliance with the provisions of such Multilateral Instrument is hereby dispensed with.

43. THIS COURT ORDERS that the Applicants are hereby authorized and empowered to execute and deliver such credit agreements, mortgages, charges, hypothecs and security documents, guarantees and other definitive documents (collectively, the "Definitive Documents"), as are contemplated by the ~~Commitment Letter~~DIP Term Sheet or as may be reasonably required by the DIP Lender pursuant to the terms thereof, and the ~~Applicant~~

~~is~~Applicants are hereby authorized and directed to pay and perform all of ~~its~~their indebtedness, interest, fees, liabilities and obligations to the DIP Lender under and pursuant to the ~~Commitment Letter~~DIP Term Sheet and the Definitive Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.

44. ~~36.~~ THIS COURT ORDERS that the DIP Lender shall be entitled to the benefit of and is hereby granted a charge (the "DIP Lender's Charge") on the Property as security for any and all obligations of the Applicants under or pursuant to the DIP Facility, the DIP Term Sheet and the Definitive Documents, which charge shall not exceed the aggregate amount owed to the DIP Lender under or pursuant to the DIP Facility, the DIP Term Sheet and the Definitive Documents. The DIP Lender's Charge shall have the priority set out in paragraphs ~~{39}~~49 and ~~{41}~~51 hereof.

45. THIS COURT ORDERS that CIT shall be entitled to the benefit of and is hereby granted a charge (the "CIT DIP Charge") on the Property in the amount of USD\$24,000,000 to secure amounts outstanding under the CIT Term Sheet and the CIT Credit Agreement as amended pursuant to paragraph 12(a), all as described in the CIT Term Sheet and the CIT Credit Agreement.

46. ~~37.~~ THIS COURT ORDERS that, notwithstanding any other provision of this Order:

- (a) the DIP Lender and CIT may take such steps from time to time as ~~it~~they may deem necessary or appropriate to file, register, record or perfect the DIP Lender's Charge or the DIP Term Sheet or any of the Definitive Documents, or the CIT DIP Charge;
- (b) upon the occurrence of an event of default under the DIP Term Sheet or Definitive Documents or the DIP Lender's Charge, the DIP Lender, ~~upon~~ ► days notice to the Applicant and the Monitor, may exercise any and all of its rights and remedies against the Applicant or the Property under or pursuant to the ~~Commitment Letter, Definitive Documents and the DIP Lender's Charge, including without limitation, to~~ may immediately cease making advances to the ApplicantApplicants and set off and/or consolidate any amounts owing by the DIP Lender to the ~~Applicant~~Applicants against the obligations of the

~~Applicant~~Applicants to the DIP Lender under the ~~Commitment Letter~~DIP Term Sheet, the Definitive Documents or the DIP Lender's Charge, ~~to~~ and make demand, accelerate payment and give other notices, ~~or~~ and, upon five (5) days notice to the Applicants and the Monitor, may exercise any and all of its other rights and remedies against the Applicants or the Property under or pursuant to the DIP Term Sheet, Definitive Documents and the DIP Lender's Charge, including without limitation, to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the ~~Applicant~~Applicants and for the appointment of a trustee in bankruptcy of the ~~Applicant~~Applicants, and upon the occurrence of an event of default under the terms of the DIP Term Sheet or the Definitive Documents, the DIP Lender shall be entitled to seize and retain proceeds from the sale of the Property and the cash flow of the ~~Applicant~~Applicants to repay amounts owing to the DIP Lender in accordance with the Definitive Documents and the DIP Lender's Charge, but subject to the priorities as set out in paragraphs ~~[39]~~49 and ~~[41]~~51 of this Order; and

- (c) upon the occurrence of an event of default under the CIT Term Sheet, the CIT Credit Agreement or the CIT DIP Charge, CIT, may immediately cease making advances to the Applicants and set off and/or consolidate any amounts owing by CIT to the Applicants against the obligations of the Applicants to CIT under the CIT Term Sheet, the CIT Credit Agreement, the related documents or the CIT DIP Charge and make demand, accelerate payment and give other notices and, upon five (5) days notice to the Applicants and the Monitor, may exercise any and all of its other rights and remedies against the Applicants or the Property including under or pursuant to the CIT Term Sheet, the CIT Credit Agreement and the CIT DIP Charge, including without limitation, to apply to this Court for the appointment of a receiver, receiver and manager and manager or interim receiver, or for a bankruptcy order against the Applicant and for the appointment of a trustee in bankruptcy of the Applicants, and upon the occurrence of an event of default under the terms of the CIT Term Sheet, the CIT Credit Agreement or the CIT DIP Charge, CIT shall be entitled to seize and retain proceeds from the

sale of the Property and the cash flow of the Applicants to repay amounts owing to CIT in accordance with the CIT Term Sheet, the CIT Credit Agreement and the CIT DIP Charge, but subject to the priorities as set out in paragraphs 49 and 51 of this Order; and

- (d) ~~(e)~~ the foregoing rights and remedies of the DIP Lender and CIT shall each be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the ApplicantApplicants or the Property.

47. 38. THIS COURT ORDERS AND DECLARES that CIT and the DIP Lender shall be treated as unaffected in any plan of arrangement or compromise filed by the ApplicantApplicants under the CCAA, or any proposal filed by the ApplicantApplicants under the Bankruptcy and Insolvency Act of Canada (the "BIA")BIA, with respect to any advances made under the CIT Term Sheet, the CIT Credit Agreement, the DIP Term Sheet or the Definitive Documents and with respect to any claims and rights the DIP Lender may have under or pursuant to the Paper Supply Agreement and the Amended and Restated Guarantee and Reimbursement Agreement dated as of September 22, 2008 made by the Applicants in favour of the DIP Lender and the liens relating thereto.

INTER-COMPANY TRANSACTION CHARGE

48. THIS COURT ORDERS AND DECLARES that each Applicant shall be entitled to and is hereby granted the benefit of a charge (the "Inter-Company Charge") on the Property of each of the other Applicants in an amount equal to but not exceeding:

- (a) in respect of the period from June 1, 2009 to the date of this Order, the costs of all goods and services supplied by one Applicant to another; and
- (b) in respect of the period from and after the date of this Order, (i) the costs of all goods and services supplied by one Applicant to another, and (ii) the net advances actually made by one Applicant to another.

all in accordance with existing cash management and inter-company transaction practises existing as at the date of this Order. The Inter-Company Charge in favour of the Applicants shall have the priority set out in paragraphs 49 and 51 hereof.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

49. 39.—THIS COURT ORDERS that the priorities of the Directors’ Charge, the Administration Charge and, the CIT DIP Charge, the DIP Lender’s Charge, and the Inter-Company Charge as among them, and as against the existing security held by CIT prior to the issuance of this Order (the “Existing CIT Security”), shall be as follows:

(a) with respect to all assets charged in favour of CIT under the Existing CIT Security (collectively, the “CIT Collateral”):

First — Existing CIT Security;

Second — Administration Charge (to the maximum amount of \$►);

Second — CDN \$750,000);

Third — CIT DIP Charge;

Fourth — DIP Lender’s Charge; and

Third —

Fifth — Directors’ Charge (to the maximum amount of \$►)’ Charge (to the maximum amount of USD\$30,000,000);

Sixth — Inter-Company Charge; and

(b) with respect to the Property of the Applicants other than the CIT Collateral:

First — Administration Charge (to the maximum amount of CDN \$750,000);

Second — CIT DIP Charge;

Third — DIP Lender’s Charge;

Fourth — Directors’ Charge (to the maximum amount of USD\$30,000,000); and

Fifth – Inter-Company Charge.

50. ~~40.~~ THIS COURT ORDERS that the filing, registration or perfection of the Directors'² Charge, the Administration Charge ~~or, the CIT DIP Charge, the DIP Lender's's Charge and the Inter-Company Charge~~ (collectively, the "Charges") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

51. ~~41.~~ THIS COURT ORDERS that each of the Directors' Charge, the Administration Charge, the CIT DIP Charge and the DIP Lender's Charge (all as constituted and defined herein) shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, statutory or otherwise (collectively, "Encumbrances") in favour of any Person other than the Existing CIT Security. In addition, the Inter-Company Charge shall not rank in priority to any Encumbrances existing as of the date hereof in favour of any Person.

52. ~~42.~~ THIS COURT ORDERS that except as otherwise expressly provided for herein, or as may be approved by this Court, the ~~Applicant~~ Applicants shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, the Existing CIT Security or any of the Directors' Charge, the Administration Charge or the DIP Lender's Charge, Charges unless the ~~Applicant~~ Applicants also ~~obtains~~ obtain the prior written consent of the Monitor, CIT, the DIP Lender and the beneficiaries of the Directors' Charge and the Administration Charge, or further Order of this Court.

53. ~~43.~~ THIS COURT ORDERS that the ~~Directors' Charge, the Administration Charge, the Commitment Letter, Charges, the DIP Term Sheet and the Definitive Documents and the DIP Lender's Charge, and (with respect to advances made on or after the date hereof) the Existing CIT Security,~~ shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, ~~the "Chargees"~~) and/or the DIP Lender and/or CIT thereunder shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to BIA, or any bankruptcy order made

pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "Agreement") which binds any of the ApplicantApplicants, and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the ~~Commitment Letter~~DIP Term Sheet or the Definitive Documents, nor the CIT Term Sheet or the amendments to the CIT Credit Agreement authorized hereby shall create or be deemed to constitute a breach by the ApplicantApplicants of any Agreement to which ~~it is~~they are a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the ApplicantApplicants entering into the ~~Commitment Letter~~DIP Term Sheet, the creation of the Charges, or the execution, delivery or performance of the Definitive Documents, the CIT Term Sheet or the amendments to the CIT Credit Agreement authorized hereby; and
- (c) the payments made by the ApplicantApplicants pursuant to this Order, the ~~Commitment Letter~~DIP Term Sheet or the Definitive Documents, the CIT DIP Term Sheet, the CIT Credit Agreement and the granting of the Charges, do not and will not constitute fraudulent preferences, fraudulent conveyances, oppressive conduct, settlements or other challengeable, voidable or reviewable transactions under any applicable law.

SERVICE AND NOTICE

54. 44. ~~THIS COURT ORDERS that the Applicant~~Monitor shall, within ten (10) business days of the date of entry of this Order, ~~send a copy of this Order to its~~cause a notice to be sent to the Applicants' known creditors, other than employees and creditors to which the Applicant ~~owes~~Applicants owe less than \$~~►~~,CDN\$1,000.00, at their addresses as they appear on the

~~Applicant's~~Applicants' records, and shall promptly send a copy of this Order (a) to all parties filing a Notice of Appearance in respect of this Application, and (b) to any other interested Person requesting a copy of this Order, ~~and the Monitor is relieved of its obligation under Section 11(5) of the CCAA to provide similar notice, other than to supervise this process.~~

55. ~~45.~~ THIS COURT ORDERS that the ~~Applicant~~Applicants and the Monitor be at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to the ~~Applicant's~~Applicants' creditors or other interested parties at their respective addresses as last shown on the records of the ~~Applicant~~Applicants and that any such service or notice by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

56. ~~46.~~ THIS COURT ORDERS that the ~~Applicant~~Applicants, the Monitor, and any party who has filed a Notice of Appearance may serve any court materials in these proceedings by e-mailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, in accordance with the E-filing protocol of the Commercial List to the extent practicable, and the Monitor may post a copy of any or all such materials on its website at ~~[INSERT WEBSITE ADDRESS]~~.www.pwc.com/car-fraserpapers

GENERAL

57. ~~47.~~ THIS COURT ORDERS that the ~~Applicant~~Applicants or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

58. ~~48.~~ THIS COURT ORDERS that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the ~~Applicant~~Applicants, the Business or the Property.

59. ~~49.~~ THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the ~~Applicant~~Applicants, the Monitor and their respective agents

in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the ~~Applicant~~Applicants and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to ~~the Monitor~~Fraser Papers Inc. on behalf of the Applicants in any foreign proceeding including a proceeding to be commenced by the Applicants pursuant to Chapter 15 of the United States Bankruptcy Code, or to assist the ~~Applicant~~Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

60. ~~50.~~ THIS COURT ORDERS that each of the ~~Applicant~~Applicants and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.

61. ~~51.~~ THIS COURT ORDERS that any interested party (including the ~~Applicant~~Applicants and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

62. ~~52.~~ THIS COURT ORDERS that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard Time on the date of this Order.

Document comparison by Workshare Professional on June 18, 2009 1:50:38 AM

Input:	
Document 1 ID	interwovenSite://TGF-VMWORKSITE/Client/238143/1
Description	#238143v1<Client> - Model Initial Order - CCAA Long Form
Document 2 ID	interwovenSite://TGF-VMWORKSITE/Client/242106/8
Description	#242106v8<Client> - Initial Order - June 18-v8
Rendering set	standard

Legend:	
<u>Insertion</u>	
<u>Deletion</u>	
<u>Moved from</u>	
<u>Moved to</u>	
<u>Style change</u>	
<u>Format change</u>	
<u>Moved deletion</u>	
Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

Statistics:	
	Count
Insertions	365
Deletions	325
Moved from	7
Moved to	7
Style change	0
Format changed	0
Total changes	704

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c.C-36 AS AMENDED

AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO
FRASER PAPERS INC., FPS CANADA INC., FRASER PAPERS HOLDINGS INC., FRASER TIMBER LTD.,
FRASER PAPERS LIMITED and FRASER N.H. LLC (collectively, the "Applicants")

Applicant(s)

Court File No.:

<i>ONTARIO</i> SUPERIOR COURT OF JUSTICE (COMMERCIAL LIST) Proceedings commenced at Toronto	
APPLICATION RECORD	
ThorntonGroutFinnigan LLP Barristers and Solicitors Suite 3200, P.O. Box 329 Canadian Pacific Tower Toronto-Dominion Centre Toronto, Ontario M5K 1K7 Michael Barrack (LSUC# 21941W) Robert I. Thornton (LSUC# 24266B) D.J. Miller (LSUC# 34393P) Tel: 416-304-1616 Fax: 416-304-1313 Lawyers for the Applicants.	