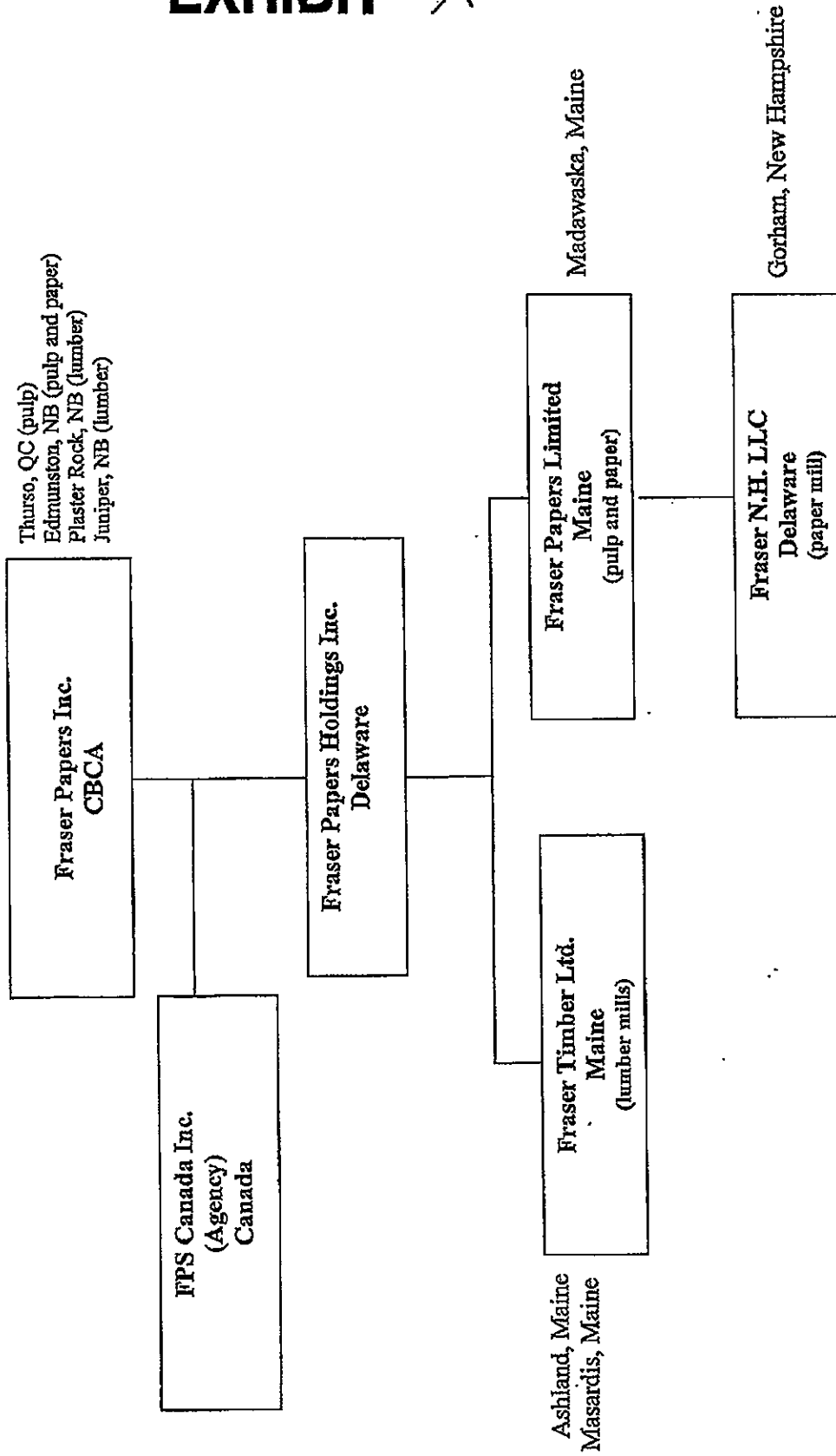


# **Exhibit “A”**

# EXHIBIT "A"

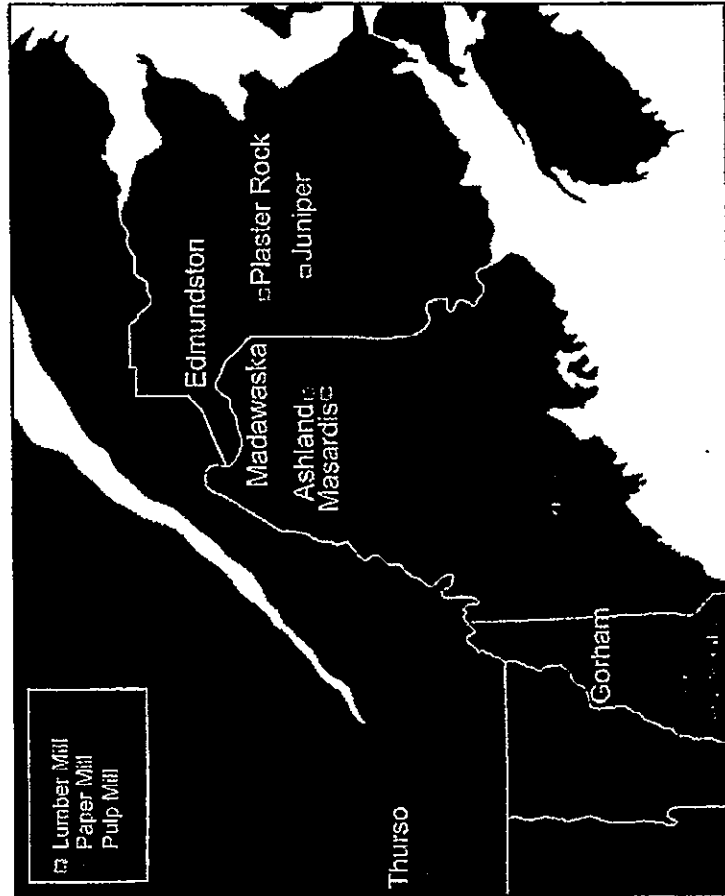
## FRASER PAPERS ORGANIZATIONAL CHART



# **Exhibit “B”**

# Business Overview

## FRASER PAPERS OPERATIONS



<u>Paper Mills</u> Madawaska, Me Gorham, NH	<u>Pulp Mills</u> Edmundston, NB Thurso, QC	<u>Lumber Mills</u> Plaster Rock, NB Juniper, NB Ashland, Me Masardis, Me
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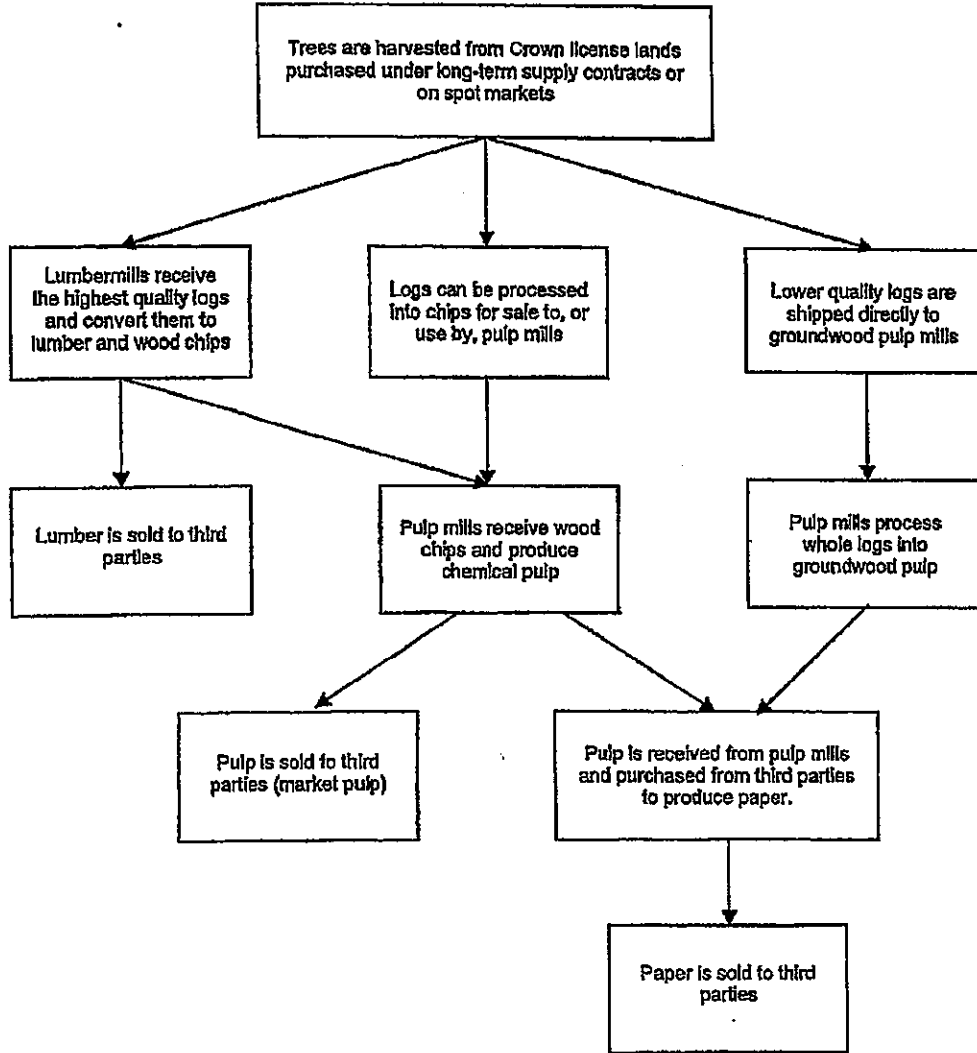
EXHIBIT "B"

# **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 16<sup>th</sup> 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/yr 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 (i.e. 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

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.

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.

*[Handwritten signature]*  
 \_\_\_\_\_

*[Handwritten signature]*  
 \_\_\_\_\_

NEW BRUNSWICK POWER CORPORATION

*[Handwritten signature]*  
 \_\_\_\_\_  
 PRESIDENT AND  
 CHIEF EXECUTIVE OFFICER

*[Handwritten signature]*  
 \_\_\_\_\_  
 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. 62-501 where 1986 = 100. Example calculations are provided below based on the following CPI data.

$$\begin{aligned} \text{CPI}_{94} &= 130.7 \text{ (Actual)} \\ \text{CPI}_{96} &= 136.0 \text{ (Assumption)} \\ \text{CPI}_{98} &= 148.0 \text{ (Assumption)} \end{aligned}$$

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

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

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

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

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

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

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	1735786.64	6355560.5
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	1098284.16	12471528
7	20.34	18.45	1.89	874226.945	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
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	-2026016.6	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	21484249
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

2002

2007

# **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](http://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.

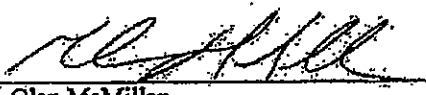
3.02 Governing Law

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.

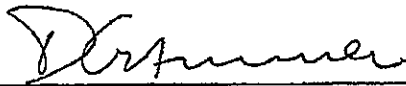
IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set out above.

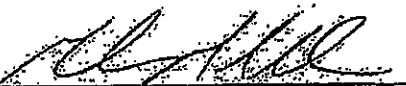
FRASER PAPERS INC.

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:

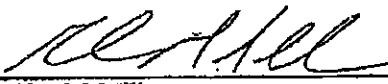
1. The definition of "Interest Payment Date" in section 1.01, is amended to "means ten Banking Days after the end of each calendar year."
2. The definition of "Interest Period" in section 1.01 is amended to "means, initially, the period commencing on the Effective Date and ending on the last day of the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

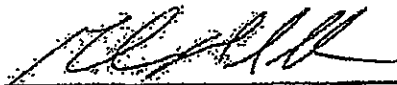
DATED as of August 27, 2007.

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"**

**Fraser**Papers

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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](http://www.fraserpapers.com)

## Financial Highlights

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

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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.

<i>(Pre-tax US\$millions)</i>	<b>2008</b>
	<b>Margin Improvements</b>
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
<b>Total</b>	<b>\$ 30.2</b>

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.

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

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 of 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>
<b>2008</b>			
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)
<b>2007</b>			
4th Quarter <sup>(1)</sup>	186.3	(20.3)	(0.69)
3rd Quarter <sup>(1)(3)</sup>	172.3	24.7	0.84
2nd Quarter <sup>(1)(2)</sup>	181.7	(37.6)	(1.28)
1st Quarter <sup>(1)</sup>	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 of December 31		
	2008	2007 <sup>(1)</sup>	2006 <sup>(2)</sup>
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.secdar.com](http://www.secdar.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

<i>(US\$ millions)</i>	Twelve months ended December 31	
	2008	2007 <sup>(1)</sup>
Net sales	\$ 688.6	\$ 714.7
EBITDA <sup>(1)</sup>	(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 <sup>(3)</sup>
Fraser Papers Inc.		
EBITDA <sup>(1)</sup> (US\$millions)	(33.6)	(41.9)
Paper operations		
EBITDA <sup>(1)</sup> (US\$millions)	(9.7)	(19.7)
Less: Impact of outages	(7.2)	(13.6)
Adjusted EBITDA <sup>(2)</sup>	(2.5)	(6.1)
Adjusted EBITDA Margin (\$ per ton)	(4)	(10)
Adjusted Average Cash Cost <sup>(1)</sup> (\$ per ton)	972	933
Pulp operations		
EBITDA <sup>(1)</sup> (US\$millions)	(10.7)	(0.2)
Less: Impact of outages	(3.0)	(5.0)
Adjusted EBITDA <sup>(2)</sup>	(7.7)	4.8
Adjusted EBITDA Margin (\$ per ton)	(37)	21
Adjusted Average Cash Cost <sup>(1)</sup> (\$ per ton)	588	530
Lumber operations		
EBITDA <sup>(1)</sup> (US\$millions)	(13.2)	(22.0)
EBITDA Margin (\$ per Mfbm)	(68)	(68)
Average Cash Cost <sup>(1)</sup> (\$ 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 <sup>(4)</sup>
Sales (US\$millions)	564.2	552.8
EBITDA (US\$millions) <sup>(1)</sup>	(9.7)	(19.7)
EBITDA (\$ per ton)	(17)	(34)
EBITDA margin <sup>(2)</sup>	(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) <sup>(3)</sup>		
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) <sup>(1)</sup>	(10.7)	(0.2)
Pulp EBITDA (\$ per tonne)	(51)	(1)
EBITDA Margin <sup>(2)</sup>	(14%)	0%
Shipments (000 tonnes) <sup>(3)</sup>	209	234
Average Revenue Realized (\$ per tonne) <sup>(3)</sup>	584	555
Average Cash Operating Costs (\$ per tonne)	602	551
Reference Price (\$ per tonne) <sup>(4)</sup>		
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) <sup>(1)</sup>	(13.2)	(22.0)
EBITDA (\$ per Mfbm)	(68)	(68)
EBITDA Margin <sup>(3)</sup>	(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) <sup>(2)</sup>		
Boston SPF 2X4 #2&Btr	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**

(US\$ millions)	Twelve months ended December 31	
	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 <sup>(1)</sup>	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:

<i>(US\$millions)</i>	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
<b>Total contractual obligations</b>	<b>\$ 330.6</b>	<b>\$ 78.0</b>	<b>\$ 129.5</b>	<b>\$ 61.6</b>	<b>\$ 61.5</b>

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.

<b>EBITDA</b> <i>(US\$millions)</i>	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
<b>EBITDA</b>	<b>\$ (33.6)</b>	<b>\$ (41.9)</b>
<b>Net Debt</b> <i>(US\$millions)</i>	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
<b>Net debt</b>	<b>\$ 96.4</b>	<b>\$ 85.9</b>
<b>Net Debt to Net Debt Plus Equity</b> <i>(US\$millions)</i>	As at December 31	
	2008	2007
Net debt	\$ 96.4	\$ 85.9
Add: Shareholders' equity	284.3	292.9
<b>Net debt plus equity</b>	<b>380.7</b>	<b>378.8</b>
Net debt	\$ 96.4	\$ 85.9
Divided by: Net debt plus equity	380.7	378.8
<b>Net Debt To Net Debt Plus Equity</b>	<b>25%</b>	<b>23%</b>

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

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

## 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.

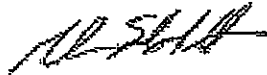
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

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

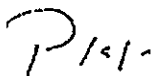
*Ernst + Young LLP*  
Chartered Accountants  
Licensed Public Accountants

## Consolidated Balance Sheets

<i>As at December 31</i> <i>(US\$ millions)</i>	<b>2008</b>	<b>2007</b> <i>(restated – note 2)</i>
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 67.9	\$ 99.1
Inventory (note 3)	125.5	124.2
Future income taxes (note 9)	0.3	0.2
	<b>193.7</b>	<b>223.5</b>
Property, plant and equipment (note 4)	256.0	266.2
Other assets (note 5)	60.9	56.5
	<b>\$ 510.6</b>	<b>\$ 546.2</b>
<b>Liabilities and Shareholders' Equity</b>		
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
	<b>110.4</b>	<b>192.3</b>
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
	<b>\$ 510.6</b>	<b>\$ 546.2</b>

*(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>	<b>2008</b>	<b>2007</b> <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 <i>(note 16)</i>	—	38.4
Restructuring charges <i>(note 17)</i>	—	(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 <i>(note 9)</i>	0.1	13.4
Loss	\$ (71.9)	\$ (43.1)
Loss per share - basic and diluted <i>(note 10)</i>	\$ (1.48)	\$ (1.47)
<b>Deficit</b>		
Balance, beginning of year	\$ (203.0)	\$ (162.0)
Change in accounting policy <i>(note 2)</i>	—	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>	<b>2008</b>	<b>2007</b> <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)
<b>Other comprehensive income</b>	<b>2.4</b>	<b>0.4</b>
<b>Comprehensive loss</b>	<b>\$ (69.5)</b>	<b>\$ (42.7)</b>
<b>Accumulated other comprehensive income</b>		
Balance, beginning of year	\$ 0.2	\$ (0.2)
Other comprehensive income for the year	2.4	0.4
<b>Balance, end of year</b>	<b>\$ 2.6</b>	<b>\$ 0.2</b>

*(See accompanying notes)*

## Consolidated Statements of Cash Flows

Years ended December 31 (US\$ millions)	2008	2007 (restated - note 2)
<b>Cash provided by (used for):</b>		
<b>Operating Activities</b>		
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)
<b>Investing Activities</b>		
Capital investments	(27.1)	(20.3)
Proceeds on sale of equity investee (note 16)	—	38.4
	(27.1)	18.1
<b>Financing Activities</b>		
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)
<i>(See accompanying notes)</i>		

# 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 ("EARSLS") 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 EARSLS.

### 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
	<b>\$ 125.5</b>	<b>\$ 124.2</b>

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
	<b>\$ 1,010.6</b>	<b>\$ (754.6)</b>	<b>\$ 256.0</b>

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

**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
	<b>\$ 60.9</b>	<b>\$ 56.5</b>

**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)	—
	<b>89.0</b>	<b>81.6</b>
Current portion of long-term debt	(25.0)	(81.6)
	<b>\$ 64.0</b>	<b>\$ —</b>

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
	<b>\$ 48.4</b>	<b>\$ 56.1</b>

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
<b>Change in Accrued Benefit Obligation During the Year:</b>		
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 <sup>(1)</sup>	\$ 508.8	\$ 643.0
<b>Change in Plan Assets During the Year:</b>		
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 <sup>(1)</sup>	\$ 337.3	\$ 530.5
<b>Reconciliation of Funded Status:</b>		
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
<b>Components of Net Pension Expense:</b>		
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 <sup>(2)</sup> (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
<b>Significant Weighted-Average Actuarial Assumptions:</b>		
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%
<b>Total assets</b>	<b>100%</b>	<b>100%</b>

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
<b>Change in Accrued Benefit Obligation During the Year:</b>		
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
<b>Reconciliation of Funded Status:</b>		
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
<b>Components of Net Post-retirement Benefit Expense:</b>		
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
<b>Significant Weighted-Average Actuarial Assumptions:</b>		
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
<b>Sensitivity to change in health care cost trend rate, for year ended December 31, 2008:</b>		
	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			Options Vested and Exercisable
	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price <sup>(1)</sup> (CAD\$)	Number of Options
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)	(7.3)
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  
Lendel 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

Mathew 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](http://www.fraserpapers.com)

# Corporate Information

## CORPORATE OFFICE

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M5J 2T3  
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Facsimile (416) 359-8606

## SHAREHOLDER INFORMATION

### Transfer Agent & Registrar

CIBC Mellon Trust Company  
P.O. Box 7010  
Adelaide Street Postal Station  
Toronto, Ontario  
M5C 2W9  
Telephone (416) 643-5500 or (800) 387-0825  
e-mail: [inquiries@cibcmellon.com](mailto:inquiries@cibcmellon.com)

## Media and Investor Relations:

Glen McMillan  
Senior Vice President and Chief Financial Officer  
e-mail: [investorrelations@toronto.fraserpapers.com](mailto:investorrelations@toronto.fraserpapers.com)

## Environment:

William Manzer  
Senior Vice President, Business Strategy and Projects  
e-mail: [manzerb@fraserpapers.com](mailto:manzerb@fraserpapers.com)

## Headquarters/Sales Office

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Telephone (207) 523-2350

## Paper sales

Telephone (877) 237-2737

## Pulp sales

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